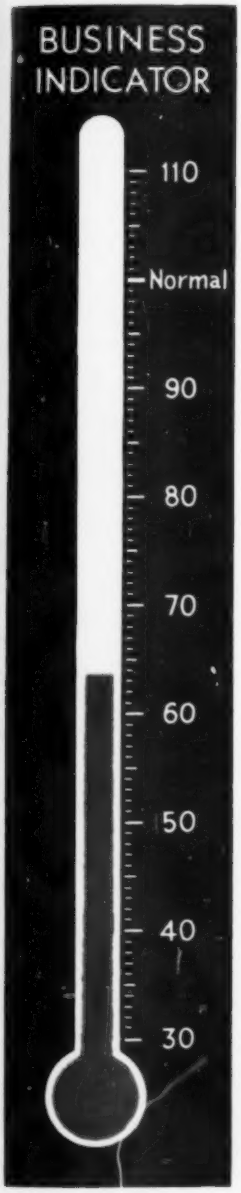
DEC 30, 1931

THE BUSINESS WEEK



Prospect of prompt stabilization and progressive strengthening of the domestic financial situation is the most promising spot in the business picture as 1931 passes unlamented into oblivion . . . . Financial difficulties growing out of uncontrolled deflation emerged as the most formidable factor frustrating domestic readjustment during the past year . . . . So far as foreign influences have played a part in postponing recovery there is little progress to be hoped for, and probably only further disturbance to be anticipated from this source . . . . But indications of energetic action on establishment of the Reconstruction Corporation after the congressional recess, intelligent private support of the bond market evidently under way in the interval, and early relief for railroads through rate and wage adjustments, justify expectations of improvement in the domestic picture early next year . . . . Its extent depends upon how promptly and powerfully pressure is applied to reverse deflation and replace and expand credit in use, and how strongly deferred private industrial demand will draw it into employment for replenishment of depleted inventories and improvement and extension of facilities . . . . Sources of such demand on a large scale are difficult to see at the moment, but they have always been so at a similar stage of depression, and will doubtless appear in due course as confidence is restored by better banking conditions . . . . If they do not, the creation of new credit resources through government action cannot of itself quicken business expansion, and should private initiative in their application prove insufficient it will become necessary to put them to work through public channels, since recovery is inconceivable in any other terms than the increased use of credit.

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This Business Week

1931-1932

A BRIEF economic history of 1931, with particular attention to the present state of the nation, and an estimate of what to expect in 1932. (p. 2)

Railroads

WAGE cuts of 10% would meet the shortage of bond interest next year, according to Daniel Willard; but the roads have served notice of a proposed 15% reduction, just in case—. (p. 7)

WITH Congress again in session, the old familiar bills to regulate the rails make their appearance, but, generally speaking, nobody wants to swat the roads while they're sick. (p. 5)

THE I.C.C. would turn the hot glare of publicity on the practice of reciprocal buying. The Pennsylvania and Erie make spirited defense of an old traffic custom. (p. 8)

NEW YORK is nearer to getting its long-promised store-door delivery service (p. 9). . . . Lower air express rates should stimulate traffic (p. 5). . . . Iowa sends live fish by rail to Eastern seaboard markets (p. 6). . . . A new aluminum hopper car saves 10 tons in weight. (p. 13)

Shipping

SENATOR JOHNSON would make the Shipping Board a sort of I.C.C. for everything that floats; now come the hearings, with plenty to hear from the industrial fleets. (p. 12)

Marketing

MR. CARTER, of Nashua, N. H., believes it's better to develop new products than to push an old line on a changing market; how good management kept the wolf from the doors of his paper company. (p. 11)

CIGARETTE sales have regained much of the ground lost when prices went up and some states added a tax; apparently, people got tired of rolling their own, went back to regular—if cheaper—brands. (p. 10)

NEW ENGLAND manufacturers disclose their problems and plans to their Council; greatest emphasis is on marketing (p. 9). . . . Industrial alcohol makers have signed a price truce (p. 13). . . . The grape growers were benefited, if painfully, by the depression and the bad weather which reduced acreage (p. 17). . . . Kroger plans 100 new stores for Pittsburgh, will add to its de luxe chain in other cities. (p. 9)

Program of Progress

THE officially approved ideas of the U. S. Chamber of Commerce on the stabilization of business include an economic advisory board, modification of the Sherman Act, employment relief, indicate a recognition of depression-born problems. (p. 15)

Production

COPPER producers have at last reached an agreement, will gamble on an upturn in business with strict curtailment. (p. 6)

OIL men see trouble ahead unless supply is reduced to meet demand; while moves are afoot to effect reduction voluntarily, government control is tightened. (p. 13)

Finance

STATE and local taxes take 65 cents to every 35 cents Uncle Sam demands. The burden is serious everywhere, genuinely critical in some municipalities. Business men here and there are making effective protest. (p. 20)

ROUND-BY-ROUND reports from the Giannini–Walker fight for control of Transamerica, with its 244,500 stockholders, 24 million shares. (p. 16)

Foreign

WORLD trade is badly shaken as the result of its falls from the tariff walls (p. 21). . . . Britain's newest duty increases American branch plant production there (p. 21). . . . Spain is throwing her automobile trade to the French; Detroit has appealed to Washington. (p. 22)

THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending December 26, 1931

Business in 1932 Should Improve Somewhat Over Levels of 1931

Readjustment to new plane should be virtually completed in most lines by March

THE bare facts recited in an accompanying table reflect the most drastic deflation of values and disturbance of our business organization and banking system of which there is any record during the past century.

It was caused fundamentally by uncontrolled financial influences, operating through our investment machinery, security markets, and banking system, which resulted successively in (a) a vast over-expansion of construction and plant capacity based on excessive corporate savings and security flotations supported by uncontrolled expansion of bank credit; (b) a temporary and abnormal stimulation of consumer purchasing power and export trade, and increased corporate and speculative profits; (c) excessive accumulation and reinvestment of corporate surplus in plant extension or speculation; (d) subsequent sharp contraction of consumer purchasing power, decline of prices and profits, deflation of capital values, increase of debt burdens, liquidation of credit, debt defaults and numerous moratoria.

Obstacles Encountered

The normal and inevitable business readjustments involved after a period of too rapid expansion of productive capacity encountered special obstacles arising from the inflexibility of prices, wages and fixed debt charges, from tariff barriers and abnormal international obligations and ran into political and international financial complications impossible to control quickly, causing a breakdown of the world's credit structure and a worldwide collapse of confidence.

Every measure taken here or abroad by private or public action to deal with the situation has had for its object either (a) to hasten the process of readjustment by further deflation of costs, expenditures, capital charges and capital values, or (b) to check or retard deflation, sustain values, restore confidence, by devaluation of currencies or replacement and expansion of credit in use. Neither line of action has so far been successful, and there is a fundamental difference of opinion as to which of the two can be the more effective; but there is increasing evidence that the deflationist policy is perforce being abandoned in favor of devaluation and credit expansion, for fear of a breakdown of the capitalistic structure in consequence of the complete centralized state control of prices, wages, and capital charges which would be required for fully effective deflation and readjustment.

The fact is that both processes are operating almost automatically as 1932 opens. They are, of course, working in opposite directions, but the combined effect at this stage is to hasten stabilization. Deflation has proceeded spasmodically since the spring of 1930, but with increasing speed since last spring and has probably been pushed as far as it safely can be. Currency devaluation has been under way abroad since the fall of 1931 and is about to be supplemented by pressure toward credit expansion in this country, partly as a result of congressional action on the President's proposals and partly as the automatic outcome of deficit financing by the federal government.

The Turning Point

The turning point of the depression and the speed of recovery in this country now depend principally on how soon and how strongly the force of inflation encounters and offsets the opposite process of deflation and brings sustained stability of values and better balance in the business and banking structure. It is fairly certain that the forces of deflation are growing weaker and those of inflation are gaining strength, so the reversal should occur in 1932.

On this basis of these fundamental

1931

Business volume averaged 16.7% below 1930, 30% below 1929, and 25% below the expected or normal level, on the basis of the long-time trend, as measured by *The Business Week* index.

Business turnover, in dollar values, as measured by bank debits, was about 27% below 1930, 49% below 1929.

Volume of industrial production averaged 16.2% below 1930 and 32% below 1929.

Value of farm crops was 29% under 1930 and 49% under 1929.

Value of exports was 37.2% less than 1930 and 53.5% under 1929.

Consumer expenditures and savings were about 19% below 1930, and 32% below 1929, yet amounted to approximately $72.5 billions.

Industrial and business expenditures were about 17% below 1930 and 33% below 1929.

National income, in dollars, was about 60.5 billions, 13.7% below 1930, and 32.3% below 1929.

Factory payrolls averaged 16.2% below 1930, and 30.8% below 1929, and purchasing power of employed factory workers 7% less than in 1930 and 20.4% less than in 1929.

Dividend payments by 600 corporations on common stocks declined 16.8% below 1930 and 14.7% below 1929.

Net income of farmers was 54.7% below 1930 and 70% below 1929.

Earnings of industrial corporations were 54.7% below 1930 and 72.6% below 1929.

Average price of commodities was 17.8% below 1930 and 26% below 1929.

Average market value of capital invested in securities on the New York Stock Exchange of all sorts declined 20% below 1930 and 24% below 1929.

factors at work it is reasonably safe to assume the following specific points in the prospects for 1932:

Ides of March

(1) The decline in basic commodity prices has probably been about completed, and the contraction of bank credit and business volume and the deflation of security prices will be ended by March. This does not mean that each individual commodity, security, or line of business is going to reach bottom at about the same time. Some commodities will still be oversupplied; securities of some overcapitalized concerns will still be subject to revaluation; some banks will be forced to further liquidation of loans, and some lines of business will still face readjustment of costs and suffer from contraction of consumer purchasing power. But in an increasing proportion of cases these readjustments will have been completed by next spring, and the general averages of commodity prices, security values and business volumes will be fairly well stabilized by the early months of 1932.

Supplemental Trends

(2) This tendency toward stabilization around current levels will be supplemented in special cases by successful concerted schemes for production curtailment, as in cotton, copper, rubber; or by circumstantial shortages of supplies, as in wheat; or as an effect of easier credit conditions for carrying surpluses, or facilitating exports, of agricultural and other commodities.

Other conditions remaining the same, however, the outlook for business volume and corporation profits in the major industries for 1932 will be only for a slight net improvement over 1931, and probably not up to the level of 1930. Steel, automobile, electrical equipment, lumber manufacturing will probably show an upturn during the first half, with the usual seasonal fluctuations through the remainder of the year.

Watch Demand Deposits

Consumer industries should at least maintain 1931 levels, with such net gains as may come from increased purchasing power due to improved employment in the basic industries. Security prices should show at least some of their invariable rise in the spring, with possibility of special stimulation from government action to strengthen railroad credit and banking conditions. The first significant statistical sign of stabilization or prospective improvement should be seen in a steady rise in the demand deposits of member banks of the Reserve System.

(3) These tendencies will probably be disturbed by the repercussion of foreign difficulties on the domestic financial situation, the security markets and our foreign trade throughout next year, and acutely early in the year. International private and public debt discussions, the disarmament conference, foreign tariff policies, the economic consolidation of the British Empire, the deflationary influence of currency devaluation abroad upon export prices in the gold standard countries, will all make the security market trend uncertain, erratic and unstable.

The Foreign Tableau

These foreign influences will not permanently prevent or even long postpone the renewed expansion of domestic business, but they will undoubtedly enforce drastic readjustments in some industries and affect the outlook for next year in many lines.

(4) The expansion of business and the rise of security prices, despite these disturbing influences from abroad, *may* be much more rapid than would otherwise be the case if Congress brings to bear the full possible pressure toward inflation arising from the financing of a large deficit by borrowing and from the use of Federal Reserve credit directly or indirectly for unemployment, agricultural, railroad, banking, and export trade relief under the President's program or on its own authority. All of these proposals and almost everything that Congress is likely to do in these matters is fairly certain to be in some degree inflationary in effect, and there will be little disposition to check or avoid such inflation on the eve of a presidential election.

Explosive Possibilities

In so far as inflation is effective, everything that has been said above about the business outlook based upon normal readjustments and probable disturbance from abroad will probably have to be revised to allow for more rapid improvement—possibly for a runaway boom with subsequent sudden and drastic reactions. The possibilities in this respect, and the reasons for them, were pointed out in *The Business Week* some time ago (*BW—Jul4'31*).

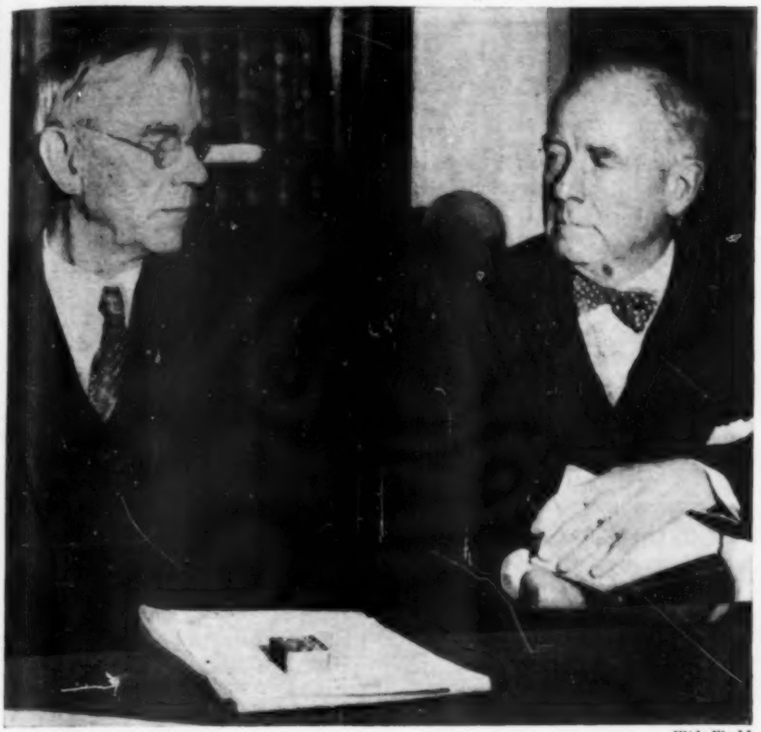
At the moment, however, considering all the basic conditions, it does not appear that any quick large-scale conversion of potential credit resources into an inflationary expansion is possible. The present situation, at least on the surface, seems in some respects sharply different from that in 1921 when the War Finance Corporation came into action.

It is not apparent that there is any single outstanding source of deferred demand in any new or old industry which can serve as a channel through which rapid credit expansion can take place, as occurred in building construction, automobile production, and export trade after the war. Something of this sort, now unsuspected, may turn up; but so far as can now be seen, the best that can be expected is the gradual absorption of credit resources released through the Reconstruction Corporation in the strengthening of weak situations, the checking of deflation, and the stabilization of values at current levels, the restoration of confidence, with a consequent slow and steady revival of business.

Iowa Ships Carloads Of Live Fish Eastward

THREE B. & O. cars, specially designed for the service, are being filled with live fish to be shipped from Lansing, Ia., to the large Eastern markets.

Millions of pounds of carp, buffalo, and suckers are shipped to the New York and Philadelphia markets annually by the Lansing Fish & Fur Co. The industry gives employment to 50



Wide World

INTERNATIONAL FINANCE—*Charles E. Mitchell (left) and Thomas W. Lamont (right) tell Senator Reed Smoot, Finance Committee chairman, that the people, not the banks, hold the foreign bonds sold here*

people. The fish are dumped from the river into an artificial pond, where they are kept alive until ready for shipment. These rough varieties are seined from the river, the law requiring that the fine fish or game fish be thrown back. About 15 tons of live fish can be shipped in cold weather in each car.

Rail Legislation Gets Fast Start, Muddy Track

RAIL legislation is off to a fast start but the muddy track augurs a slow finish. The scratch shows a score of familiar bills that never get anywhere.

Most important is the proposal of Rep. Sam Rayburn (Tex.), new chairman of the House Committee on Interstate Commerce, to put railroad holding companies under I.C.C. control, giving that body the same jurisdiction of their accounts and security issues, as it now has over those of operating companies.

A Bill With Teeth

The Rayburn bill also would give the commission authority to pass upon the affiliation of 2 or more railroads. If made retroactive, the commission could force holding companies to divest themselves of stock used to form groupings that flout I.C.C. ideas on rail consolidation.

Following an investigation last session into the ramifications of railroad ownership, Walter M. W. Splawn, counsel for the House Committee, recommended measures to curb rail stock purchases by the merger-makers, but suggested that federal regulation of railroad holding companies should be deferred until further investigation had demonstrated whether all holding companies "engaged in interstate commerce" should be subject to such restraint. This category would include the public utilities and possibly banking, insurance and investment chains.

As chairman of the House committee, Representative Rayburn may become a more influential figure in railroad legislation than his predecessor. Representative Parker's reputation for friendliness to the carriers detracted from his influence on behalf of measures advocated by them. The new chairman is active, opinionated, but aims to be fair. He stepped right out last week with a statement that the I.C.C. legislative recommendations challenge the attention of Congress and his committee will reach as many of them as possible this session. The commission's proposal for a new rate base and repeal of excess earnings recapture is being framed now.

Bus and Truck Control

Proposed legislation for regulation of buses should, in Rayburn's opinion, be extended to include trucks, but the House committee may wait until it learns whether such measure will receive serious consideration in the Senate this session. Senator Couzens has introduced a bill to regulate bus and truck operations, but only as "something to shoot at."

Railroad legislation in the Senate is still dominated by the Michigan senator as chairman of the Interstate Commerce Committee, and the railroads dislike his tactics. They do not regard as friendly his plan for investigation into railroad operations by a joint congressional committee of his own selection. Mr. Couzens is the champion of labor and the railroads naturally expect that any "remedial" legislation approached from that standpoint would thrust a greater burden upon them.

May Regulate Forwarders

Regulation of freight forwarding companies is proposed in a bill sponsored by Representative Hoch (Kans.), who would also prohibit industry-owned lines from hauling the freight of their proprietors. Repeal of the Pullman surcharge, sponsored as usual by Senator Robinson (Ark.) and Representative Igol (Ill.), has little chance with railroad revenues at their present low ebb.

Air Express Rates Cut To Boost Traffic

DRASTIC cuts in air express rates, in some instances as high as 50%, have been put into effect by the Railway Express Agency. This is the first rate reduction made since the company started its air service over 4 years ago.

Under the new schedule, which went into force Dec. 16, a 10-lb. package can be shipped between New York and Chicago for \$4.40, against \$10 previously; between New York and San Francisco, for \$13.80 instead of \$26. Similar sharp reductions have been made.

The minimum rates for air express packages have also been reduced—to

$1 on shipments up to 300 miles, $1.25 up to 1,500 miles, $1.50 above that.

The express company hopes that the lower rates will increase the express traffic by air, which for the country as a whole has so far made small progress. Excluding the private operations of the Ford Motor Co. representing shipments of nearly 900,000 lbs., it is estimated that perhaps not more than 200,000 lbs. of express matter were carried by air during the first half of this year.

One of the chief reasons for the slow development has been the relatively high cost of transporting goods by air. Even after the reductions just made, air express charges are approximately 9 times rail rates.

In the meantime, Postmaster-General Brown has notified air mail operators that their rates will be cut 10% beginning Jan. 1. The purpose of the reduction is to avoid a prospective $600,000 deficit in air mail service.

Success of Copper Control Plan Depends on Upturn in Business

But world agreement and change in export methods will clear way to take full advantage of a rise

HAVING finally agreed on a world-wide restriction and marketing plan, copper producers are now hopeful that conditions in their industry will soon take a turn for the better.

The restriction program, announced this week, is along the lines previously reported in *The Business Week* (*BW—Dec9'31*). It provides for the reduction of copper production beginning Jan. 1 to 26½% of capacity. Agreement in principle has also been reached to reorganize Copper Exporters, Inc., the selling agency of producers in the export market.

Detailed Provisions

Curtailment is to continue indefinitely, but, after Dec. 31, 1932, any company will have the right to increase its operations on 30 days' notice. The agreement will also cease to be binding when the price of copper exceeds 12¢ a pound in the domestic market for a period of 15 days, or if the total stocks of copper above ground at any time drop below aggregate deliveries in the preceding 4 months or if, by the end of 1932, the level of stocks still remains above the total of previous 4-month deliveries.

Drastic as the restriction may appear, it may still leave production somewhat ahead of current consumption—at least temporarily. Due to the falling off in European business and the unsettlement here, world consumption is now somewhere around 80,000 tons a month—or a few thousand tons below the level to which world production is to be reduced. But any improvement in business after Jan. 1 should make a dent in copper stocks, and it is on this possibility that the optimists are gambling for copper's future.

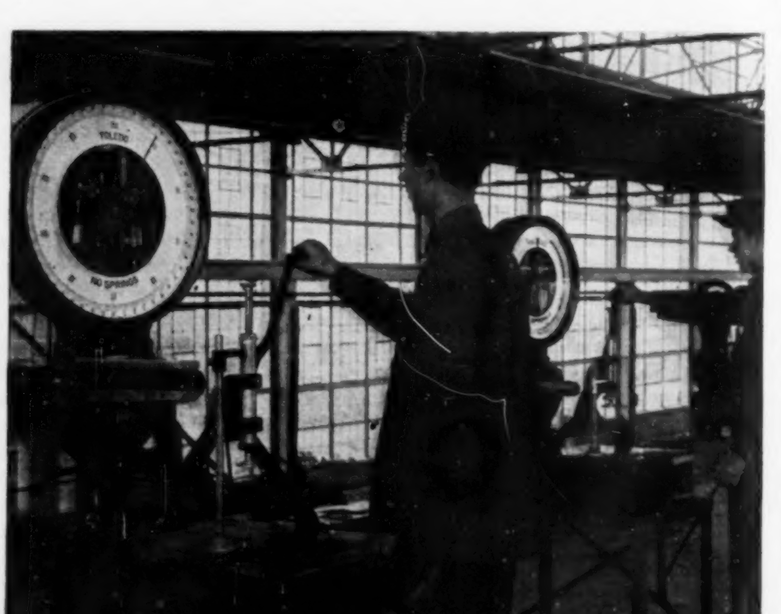
It is assumed that when the agreement goes into effect the publication of copper statistics will be resumed. It was stopped 2 months ago when at least one large domestic interest refused to produce its figures, despite objections that confidence was endangered by such action at a time when copper stocks are the largest the world has ever seen. It is estimated that the increase in world refined stocks, in the meantime (October and November), amounted to about 50,000 tons, bringing refined stocks in producers' hands to approximately 540,000 tons.

Another question raised by the new agreement concerns its effect on the copper tariff fight, waged by a group of domestic producers, with the support of some state governors and congressmen. The Tariff Commission, after a long study, has just reported to the Senate that the domestic cost of producing refined copper is 1.42¢ higher than the foreign and pointed out the potential competition from abroad confronting the domestic industry. Moreover, Rep. John M. Evans (Mont.) has introduced a bill for a 4¢ duty; so has Rep. W. Frank James (Mich.), while Sen. Arthur H. Vandenberg (Mich.) is trying to persuade the lawmakers to impose an embargo or countervailing duties.

No Tariff Likely

It is doubtful, however, if Congress will take any action to strike copper off the free list. Opposition has been strong and, now that the hope of a higher price is revived by the recent agreement, the agitation for a duty is likely to subside. A tariff deal would probably break up the curtailment pact and spoil everything.

In the meantime, on Katanga's decision to accept the curtailment plan, the Phelps Dodge Corp. cancelled its resignation from Copper Exporters. Several explanations of its original withdrawal



The Business Week

TESTING SPRINGS WITHOUT SPRINGS—*These scales, devised by Toledo for the Soviets, automatically classify coil springs as weak, normal, or strong*

What Congress Did

The Senate:

Adopted Johnson (Cal.) resolution for investigation of American holdings of foreign securities. Hearings have begun.

Adopted Couzens (Mich.) resolution for inquiry into condition of railroads.

Adopted resolution to investigate air and ocean mail contracts.

The House:

Passed bill authorizing purchase of $100,000,000 capital stock of Federal Land Banks.

Passed bill providing income tax and inheritance tax in District of Columbia.

Approved appropriation of $120,000 to establish additional Federal Employment offices.

The House and Senate:

Adopted the moratorium resolution.

Appropriated $203,925,000 for payment of soldier bonuses and for dependent pay.

have been put out. However, the industry expected such defections in the event of the copper agreement's failing, and is inclined to think Phelps-Dodge made its move ahead of schedule in an effort to prevent the collapse of curtailment negotiations.

As a condition to its return to the fold, it is believed that Phelps-Dodge stipulated that no further effort should be made to peg the price of copper. This practice has been widely criticized and blamed in large measure for the demoralized state of the copper market during the past year and a half.

Changes contemplated in the rules of Copper Exporters will probably include the revision of the methods of marketing fire-refined copper, some of whose producers have hitherto been given a free hand to sell their product abroad below prices quoted for electrolytic copper, producers of which have opposed this arrangement.

Under the new plan, it is understood, all production will be pooled and all producers put on an equal footing in the export business. This will also mean that custom smelters and a number of smaller producers will automatically have a larger share in the total foreign business than at present. Such a plan, it is felt, should make for increased stability in prices, as it ought to remove the selling pressure that has so often forced the small producers to cut prices.

Following the revision of rules, Roan Antelope, Rhokana and several Canadian and South American mines, not now members, are likely to join the export association.

While prices are expected to rise as a result of the agreement, no one anticipates that they will go up very high. Their course will depend ultimately on the trend of business after the turn of the year.

Roads Will Talk 10% Wage Cut With 15% Threat in Reserve

THE optimism of railroad presidents and bankers regarding the railroad situation was stronger than ever this week.

At the Dec. 18 meeting in New York, railway executives of the Eastern, Western and Southern groups appointed a joint committee to negotiate the wage and unemployment issues with union representatives. At the same time, contrary to expectations, they agreed to serve notice immediately on employees of an intention to cut wages 15%—this as a safeguard against a possible breakdown in the negotiations for a voluntary 10% reduction.

Daniel Willard, chairman of the railroads' wage committee, expressed confidence that the negotiations would result in a satisfactory adjustment. He pointed out that a wage reduction of 10% and the revenue from increased freight rates would probably add $300 millions to railroad income in 1932. The wage cut, he said, would meet any shortage in bond interest next year. It is understood that the railroads are prepared to agree that any surplus from the wage saving, after fixed charges have been met, will be used to employ additional labor in maintenance of their properties.

Assuming that the deficiency in interest charges next year will not be any greater than this year—$50 millions, excluding the obligations of roads that have other income or are already in default or receivership—the total for both years will probably be covered by the proceeds from increased freight rates. In that case, the entire $200 millions expected from a 10% wage cut would be available for putting idle workers back on the payroll. The question is whether the railroads can resist the temptation to appropriate wage savings for bond interest when they must pay interest on loans obtained from the Railroad Credit Corp.

Wants Specific Provisions

The B. & O. president also told the Senate Banking Committee on Monday that legislation on the Emergency Reconstruction Corp. should include railroad relief specifically rather than by inference. Pointing out that the railroads have maturities of $1 billion coming due in the next 3 years, he said the carriers would have to borrow this money at distress prices unless the government recognizes a good investment. He would not suggest the rate of interest the government should charge, but remarked that if the rate is "reasonable," the railroads will save 1%, possibly 2%. In reply to Senator Couzens, he said he would have no objection to meeting the railroads' needs out of a government revolving loan fund.

Rail-Truck Experiment Hangs on I.C.C. Decision

CHICAGO, NORTH SHORE & MILWAUKEE, progressive interurban line, is proud of its "ferry truck service" (*BW—Mar18'31*) connecting storedoors in Chicago with those in Milwaukee and Racine. In the year ended last June it grossed $28,000 from its fleet of 78 trailers which, in tow of tractors, haul containers from shipper to rail line (where a special ramp loads 3 containers to a flat car) and from rail destination to consignee. The equipment represents an investment of $155,000.

Chicago & North Western was proud of its container car service until the Interstate Commerce Commission forced its abandonment earlier in the year by a decision which decreed that rates which vary with minimum weight of containers can only be justified by differences in quality or cost of service. Now it doesn't see why ferry trucks don't come under the same decision, has turned the I.C.C.'s attention to its rival, on a plea for competitive equality.

So far, Chicago, North Shore has put up a vigorous fight to keep its

pioneer service going. Defence: (1) It is not the commission's function to determine what types of equipment can be used by common carriers; (2) ferry truck rates are satisfactory to shippers, compensatory to the company, and as high as can be maintained to attract traffic from unregulated truck and water carriers—and even if shown to be less than reasonable maximum charges, the Interstate Commerce Act does not require a road to get all the traffic will bear; (3) as to the container decision, ferry truck rates for different classes of service are based on cost per ton of actual transportation; (4) while it is willing to extend the service, other localities, shippers, and kinds of traffic are not prejudiced by the present limited schedule.

North Western's container rates had been the same as North Shore's truck rates, ranging from 15¢ per 100 lbs. on 20,000-lb. shipments to 40¢ per 100 lbs. on 5,000-lb. shipments. The class rates to which North Western reverted in July, as revised by the commission's order effective Dec. 3, range from 27¢ per 100 lbs. on fourth class to 53¢ per 100 lbs. on first class.

Other roads which have been watching this experiment in keeping traffic away from independent truckers are anxiously awaiting the I.C.C.'s decision.

I.C.C. Hopes Publicity May Help Cure Rail-Shipper Reciprocity

SOON the I.C.C. will make public a report discrediting "traffic diplomacy." It hopes to discourage the prevalence of reciprocal deals between railroads and shippers.

Inquiry by the commission has disclosed that this hoary practice has become a dog-eat-dog struggle in the past 5 or 6 years. For every *entre nous* transaction that I.C.C. crews have uncovered, there are a hundred that will remain buried through fear. Railroads that have testified to purchasing supplies from shippers in exchange for traffic have been penalized. Pressure exerted by carriers and shippers to get business is limited only by their size and influence. Small roads and small manufacturers have suffered in silence.

Shippers Were Coy

Shippers have kept themselves scarce during the I.C.C.'s disconcerting investigation. None accepted the commission's invitation to testify. A few scouted the hearings held at Chicago, New York, New Haven, Detroit, Cincinnati, St. Louis, Philadelphia, and Washington, but most of them asserted that their business is their own and not the I.C.C.'s.

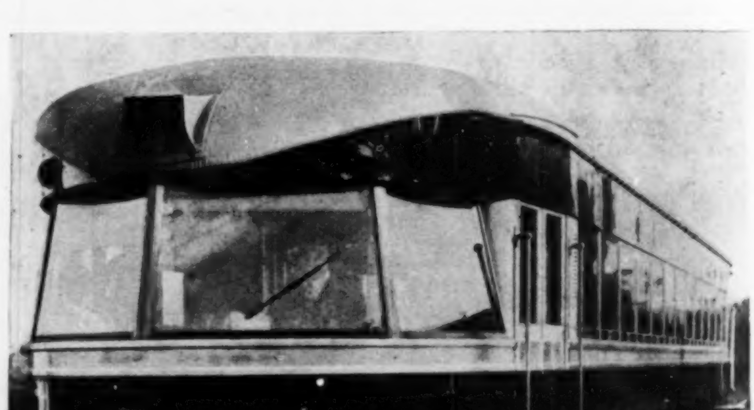
Despite such obstacles, the I.C.C. has gathered an amazing record on the extent to which purchases of railway equipment and supplies depend upon the routing of traffic. The inquiry was limited to 22 roads, but the trail leads from the Atlantic to the Pacific and embraces the purchase of fuel and a thousand other items.

Pennsylvania accepted the commission's invitation to file a brief. It admits reciprocity in the purchase of some products but asserts that, except for coal, it buys only materials that meet required standards and at the lowest possible prices. Cement and lumber are purchased on competitive bids, mostly from off-line producers. Paint and oils also are bought on competitive bids. Traffic received from producers has a bearing on the distribution of orders for rails. The Pennsylvania thinks "that perhaps an explanation is due" to the commission regarding the method of purchasing bituminous coal. Col. C. D. Young, general purchasing agent, says orders are distributed with some relation to the output of the mines on Pennsylvania's lines. Colonel Young freely admitted that traffic data are considered in the allotment of orders but denied that orders are given in exchange for traffic. The road doesn't attempt to get the lowest possible price in different fields, for fear such a policy would wreck the industry that furnishes the Pennsylvania with 30% of its traffic, 36% of its revenue. Beating down the price of its locomotive fuel, in Colonel Young's opinion, would eventually destroy business.

Erie challenged the commission. "We say that reciprocity is practiced by us; and that it is fairly practiced; and as practiced by us is not only lawful but is good business management."

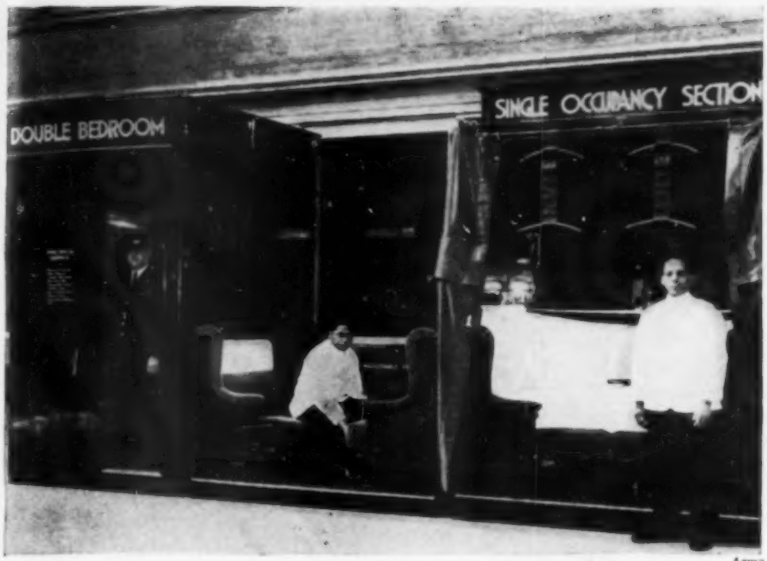
Erie Splits a Hair

Unless purchases be at such prices as indicate inefficient and uneconomic management or discriminate unduly between sellers, who are or may be shippers also, there could not even be a suggestion, according to the Erie, that the carrier is doing an unlawful act.



Wide World

SPEED CAR—*The streamlined front end of the car tried out on the Philadelphia & Western. It does the 14 miles to Norristown in 16 minutes*



Acme

Pullman Shows Its Wares—*On exhibition at the Pennsylvania Station, New York, are the "S.O.S.," the new reclining seats and double bedroom. Questions reveal that many members of the traveling public, due perhaps to the automobile, are unfamiliar with Pullman comforts*

Kroger Replaces Weak Links With Strong Ones

Convinced that retail business in Pittsburgh will show early and substantial gains, Kroger Grocery & Baking Co. plans 100 new food stores there.

The company is also continuing the establishment of "De Luxe Food Markets" in important cities, has just opened the fourth at Cleveland. In addition to the general line, these units maintain delicatessen, cigar, magazine, cordial departments, have large fountains and offer luncheonette service. Their sales volume has demonstrated that, well-located in large cities, they are not only profitable but have advertising value.

Kroger continues to weed out weak units. Its total of 5,575 stores in 1929 was cut to 5,167 by December, 1930; since then, 279 more have been closed.

Sales during 12 periods of the company's 13-month year were 7% under 1930, while food prices have dropped 17.5%, indicating a tonnage increase.

The commission's inquiry does not indicate such a state of affairs, the Erie contends.

The I.C.C. is seeking now to discover whether the insidious practice can be curbed by existing or new law. Its only hope of effecting a remedy for present conditions may lie simply in their exposure. Publicity was effective several years ago in putting a stop to the practice of several railroads of farming out repair work to outside shops.

Store-Door Service Is Promised to New York

The prospect of a store-door pick-up and delivery service by the railroads in New York City, for which merchants have been clamoring a long time, has come nearer to realization with the announcement at the annual meeting of the Atlantic States Shippers' Advisory Board in New York last week that the carriers had agreed to start this service.

Decision was reached after a series of conferences between railroads and shippers. Another meeting has been called for Dec. 29 to discuss details of the plan. Representing the shippers at the conference will be W. H. Chandler, chairman of the New York Shippers' Conference, W. J. L. Banham, president of the New York Board of Trade, and C. L. Hillary, general traffic manager of the Woolworth Co. in New York.

Where New England Business Will Look for Profits in 1932

With annual closing statements in the offing, their round-sum black or red ink measure of 1931 performance tentatively known, 300-odd New England manufacturers have disclosed to the New England Council how they hope to make 1932 earn more and bigger profits.

Of the total, 240 propose to find ways to cut costs in their production departments. More specifically, 116 intend to install new machinery of higher capacity, 102 propose to employ new processes, 86 plan to improve layout, 79 want to revise shop management, and 77 are going to apply bonus or incentive wage plans to accomplish desired results.

Better factory lighting is considered by 35 as essential to insure better performance; 61 plan increased safety work for employees; 63 will improve systems of stores control; 20 expect to install new material-handling machinery; 212 will attempt general reductions in operating costs.

That problems of distribution and marketing take precedence over those of production is indicated by the fact the Council received replies to questions in this field almost doubling the number touching on production subjects.

Specifically 157 manufacturers are setting out to make a more careful analysis of their domestic markets and 27 are making the same move in their foreign markets; 104 expect to apply organized research to domestic markets and 20 to foreign markets.

While 142 are going to employ more research to develop new or improved products, 198 have new products definitely planned; 119 propose to develop new uses for old products; 65 will develop new packages or wrappings to stimulate sales and profits.

More Dealer Helps

Numerous manufacturers plan improvements in merchandising their products, 108 proposing to give more help to dealers and retailers, while 90 feel they must open new wholesale and retail outlets and 14 propose to open wholly owned wholesale and retail branches.

Increased advertising is considered an aid to better profits by 90 manufacturers, while 88 intend to revise their entire selling plans.

The study discloses a distinct trend away from wasteful sales methods toward the application of selective selling; 163 manufacturers propose to concentrate on their most profitable lines; 137 promise to concentrate strictly on

their profitable customer accounts; 112 on the most profitable sales territory.

Aside from these specific replies, 139 expect to try for a general increase in sales volume, 106 want to build 1932 profits on reductions of wages and salaries in their sales departments, while 281 propose to carve added profits out of expense reductions other than on wages and salaries.

Cigarette Smokers Are Coming Back—Some to Cheaper Brands

CIGARETTE production in November, reported at 7,849,803,470, approached within 1.28% of the November, 1930, total of 7,951,588,370, indicating that, temporarily at least, the decline started June, 1930 (*BW—Sep30'31*) has been checked.

Price increases effected in June (*BW—Jul8'31*) and added taxes in many states had switched smokers to pipes or to rolling their own, causing consumption decreases of 2.06% in June, 9.77% in July, 10% in August, 4.86% in September and a record drop of 18.19% in October.

Some manufacturers read in November figures signs that rolling-your-own is on the wane. First popular in Arkansas where a state tax of $2.50 a thousand, added to the federal impost of $3.00 a thousand, made each pack of 20 cigarettes carry 11¢ in taxes, this fad spread rapidly in all directions. Millions of cigarette-making machines were sold.

Large cigarette manufacturers, seeing the possibility of a permanent loss of volume, started to advertise package tobacco, pushing its sale ahead of 1930 figures by 632,000 pounds in August, 672,655 pounds in September, 1,179,000 pounds in October, 2,414,364 pounds in November. Revenue collections on cigarette paper during July 1–Dec. 1, 1931, have increased 16% over the same period of 1930.

Back to Tailor-Made

But dealers in states where the roll-your-own fad was popular claim that many smokers soon go back to buying ready-made cigarettes to supply all or at least part of their requirements. Pocket machines are too cumbersome to carry around. Making advance supplies at home is not always convenient. Pipes cannot be smoked everywhere.

But smokers do not necessarily go back to smoking the same brand as before. The economy motive has caused some to look for a more solidly packed cigarette that lasts longer. Others are willing to buy the cheapest ready-made cigarette they can find. In states with heavy taxes bootlegging of supplies from neighboring states has become popular and profitable.

In the Eastern and Central Western states a new cigarette selling for 10¢ a pack of 20 has won record-breaking popularity. Since July its manufacturer has multiplied production capacity repeatedly without having reached a position where current demand could be fully supplied. He maintains a wholesale price of $4.50 a 1,000 (of which $3 represents federal tax), claims that "the dime is a nimble coin" and that convenience of selling price has been a factor.

Retailers agree that a selling price equivalent to a unit of coin helps sales. Some feel that sale of the "big 4" brands—Lucky Strike, Camel, Chesterfield and Old Gold—could be materially aided if wholesale prices were reduced to bring back the long-prevailing 2 for-a-quarter retail price.

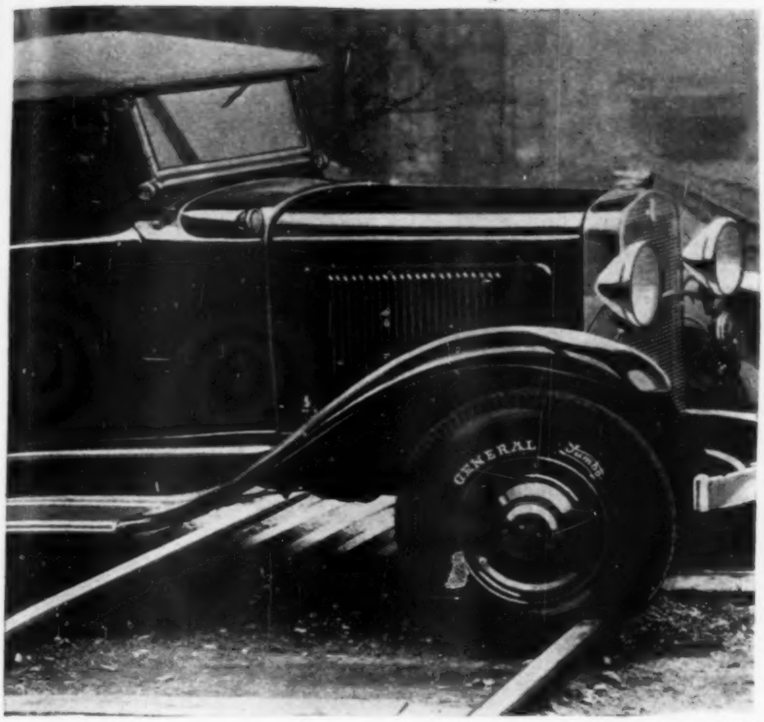
Manufacturers are inclined to leave prices as they are until the present wave of state tax legislation has passed. At present 13 states impose taxes ranging from 5¢ a pack of 20 downward, necessitating the affixing of a tax stamp to the package in each state. Many other states have taxing laws under consideration. Introduction of transparent or moisture-proof wrapping has made affixing of tax stamps difficult.

May Change Package

If most states should enforce cigarette tax legislation present methods of packaging may require changing. Anticipating this, one manufacturer is experimenting with a new-style package in which the moisture-proof container forms the body of the pack and a printed band carries the label and advertising copy on ordinary paper to which state tax stamps will readily adhere.

Meanwhile snuff production, which for some months increased drastically, dropped substantially below the 1930 total in November. For the 5 months July 1–Dec. 1 revenues from this source are now below those of 1930.

NOT A STITCH—*"Seamloc" rugs and carpets, introduced at the spring floor covering "opening" in New York, are of pile fabric with a composition back, need no sewing or binding. Seams are locked from the back with tape and cement, do not show on the surface*



The Business Week

RUBBER WHEELS—*The new "Streamline Jumbo" tires, developed by General, are wheels, shock absorbers and tires in one. Broad at the hub, they are standard tire width on the road, need only 12 pounds of air*

Old Company Licks Depression By New Methods, New Products

Nashua Paper's tonnage shrinks but profit ratio rises and yields an extra dividend

WHILE *The Business Week's* Index of Business Activity has been dropping steadily toward the freezing point, some companies have kept right on working in their shirt sleeves, too busy to feel the chill.

One such is the 83-year-old Nashua Gummed & Coated Paper Co., specialty paper makers of Nashua, N. H., which marched blissfully through the black forests of '30-'31 without once catching sight of a wolf.

Tonnage Down, Profits Up

Tonnage, to be sure, fell off about 10% in '31, dollar volume suffered somewhat; but net profits are higher, some 12% in ratio of earnings to tonnage, and the third quarter brought—believe it or not—an *extra* dividend of $1 a share. This without a pay-cut or a lay-off; in fact, most of those on the payroll are earning more this year than before.

The record is a triumph for management, personified, in this case, by the president of the company, W. L. Carter, a golfer who would rather make a dollar than a birdie, an antique hunter who'd enjoy discovering a new process as much as a Sheraton sideboard. His hobbies are many, but his real passion is what you might call creative management.

Way back in '29, Mr. Carter decided that this was no recession, but a real depression, which he defined as a decline of normal rather than a decline *from* normal. The gentleman is a realist; he faced the facts, sized up the situation, took his losses in advance—and mentally.

Looking forward to lower tonnage, lower prices, lower gross income, he planned to meet them with lowered production costs, greater sales effort, and research to develop new products and new uses for old products. All of which is simple and logical—given the realistic mind.

A calculating eye was turned on all departments, all essential functions. The production department went on a modified Taylor system, the company splitting 50-50 with the worker all savings above average performance. There resulted greater output at lower cost, with a nice increase in income for efficient individuals.

Cut Red Tape

The office, too, got the eagle eye. Forms and systems were simplified, procedures condensed. Filing, for instance, once took 5 clerks, is now done better in half the clerk-time. Stenographers once averaged 456 lines a day, now type out 1,500, share the saving with the company, earn 40% more.

However, a penny saved is only a penny earned; it was research and old-fashioned selling which paid that dollar extra dividend. A calm examination of markets showed a decreasing use of certain kinds of paper. Transparent wrappings were tearing off large strips of the market for the company's waxed papers. Rather than struggle vainly to make a completely transparent wax wrapper, Nashua went to the other extreme, capitalized a completely opaque paper which was easier to print and handle. Volume on this new product replaces most of the tonnage lost on the old.

The makers of Old Gold cigarettes wanted a package for 50 to stimulate sales to the ladies. Tin boxes were out; a velvet or velour paper would provide just the right touch, but the import price was high and no mill this side of Berlin had ever made it.

While Mr. Carter went scouting in Europe for a process, the company laboratories got busy. Before he concluded negotiations, the cable arrived announcing a successful home-made product. Old Golds now come neatly attired in a golden brown velour, made in New Hampshire.

To Take Up the Slack

The gummed paper department needed business to take up the slack, so the patent on a paper shirt band for laundries was acquired, and 185 millions have been sold this year although marketing has not yet been fully organized.

Mr. Carter believes it's better to develop new products than to try to force an old line on a changing market. Good management, in his credo, is just good sense. And the way to keep the wolf from the door is to go loaded for bear.

Seek Cure for Shipping Sickness In Government Regulation

HAVING failed to cure the running sore that chaotic rate-cutting has embedded in their business, operators of intercoastal shipping lines may have to swallow a bitter dose of governmental regulation. The prescription has already been written by Senator Johnson of California and is now in the consulting room of the Senate's Committee on Commerce. Its ingredients are of deep concern to all shipping, domestic and foreign, for, while the eminent doctors have been about it, they have compounded what they think is a panacea for all the ills plaguing water transportation in, to, and from this country.

New Teeth

If the Johnson amendment to the Shipping Act of 1916 comes out of Congress as it went in, the U. S. Shipping Board will be equipped with a brand-new set of teeth and armed with the same kind of sweeping authority that is possessed by the Interstate Commerce Commission. Without its agreement that the public interest is thereby served, no ship operator will be able to engage in interstate commerce, increase, decrease, or materially change the character of the service he is giving. With its new powers, it will be able to prescribe both maximum and minimum rates—either to protect the public or stabilize competition.

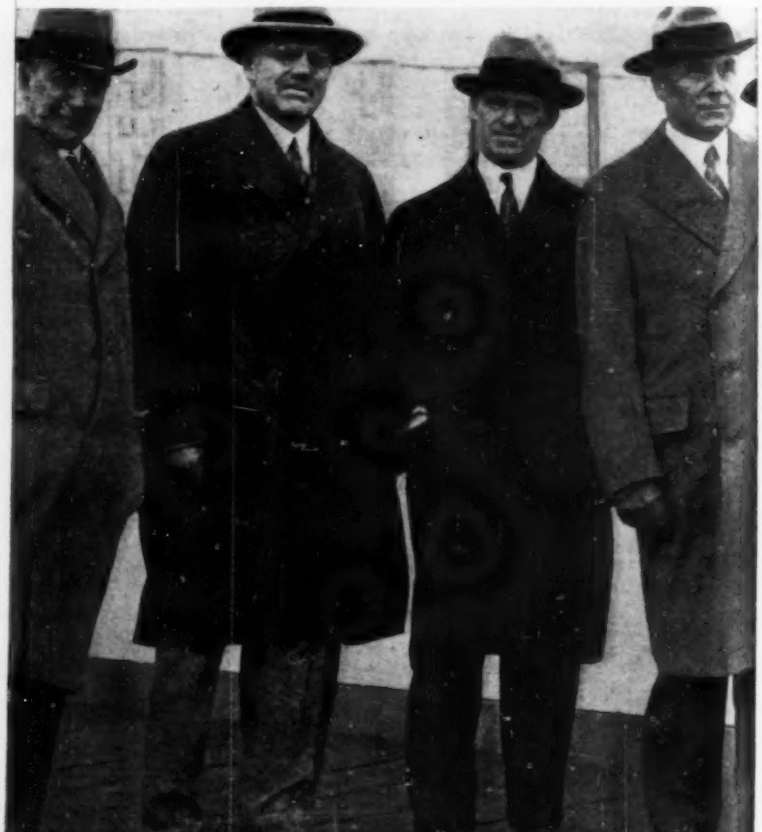
Furthermore, the broad powers accorded to the Board by the Johnson Bill are not limited to the regulation of domestic shipping. This is made very explicit by a provision that gives it authority to require "any common carrier by water in *foreign* commerce" to change any rate or practice which is "unjustly prejudicial to exporters of the United States as compared with their foreign competitors" and empowers it to fix maximum rates or fares where called for. And if the government cannot directly regulate foreign shipping lines, there is a strong suspicion that it can do about anything it wants with them through its authority over port rights, wharfage, terminal and warehouse charges.

Fireworks Foreseen

The Johnson Bill will not get through without fireworks. Its text heads straight for trouble once it winds up its preliminary list of definitions. Stripped of verbiage, Section 2 means that one year after enactment industrial carriers shall cease to be common carriers—which means that fleets set afloat to carry their owners' own goods and compete in common carrier service at the same time shall thereafter be ruled out of the competitive situation. The industrial carriers are certain to fight this on the ground that experience has shown that it is possible to build up a stronger merchant marine system by permitting the use of industrial shipments as a nucleus of traffic; that it was the shortcomings of the common carriers which forced them into establishing their own lines. The pending hearings may find shippers dubious about the effect of this proposal to cut down the facilities afforded them. Some are inclined toward a compromise that would exempt the industrial carrier which loads no more than 40% of its own cargo.

The hearings will undoubtedly rake up the old dispute between the ports. The South Atlantic and Gulf sections foresee special benefits in the Johnson Bill. Since, they say, most of the riotous rate-cutting that prompted it has been carried on by lines plying between the North Atlantic ports and the Pacific Coast, a restoration of normal rates under government regulation would alter the ratio in their favor so that traffic from the Central states that now moves to Atlantic ports would tend to shift southward.

Meanwhile, the intercoastal lines are still struggling toward an agreement on rate stabilization that will enable them to go before Congress with some assurance that self-regulation can be depended on to accomplish all now sought through government intervention. However, some of them see such intervention as the only way out of their present troubles.



OIL MEN—*Rufus C. Dawes (left), president of the Chicago Century of Progress Exposition, shows the site of the oil exhibit to Messrs. Coates of Cities Service, Sinclair of Sinclair, Bullock of Standard of Indiana*

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New Rise in Output Threatens Peace in the Oil Industry

Leaders try to tighten curb, talk of general meeting to prevent a return to chaos

AFTER last week's St. Louis meeting of directors of the American Petroleum Institute, opinion in the oil industry seems somewhat more optimistic. It evidently believed that big oil producers represented there came to some sort of agreement to reduce crude and refinery output in line with lessened seasonal demands for gasoline. Amos L. Beaty, new Institute president, issued a statement at the close of the meeting predicting reduction of output to meet demand.

This is a distinct reversal of the pessimism expressed in his call for the meeting. Charging that both crude production and refinery runs were 20% above what they should be, he declared, "Unless something is done quickly we are headed for trouble." He admitted that a tariff on oil, now being actively pressed in Congress, might help, but warned that it cannot save the industry. "We must do constructive things or else witness demoralization exceeding anything in the recent past."

The trouble is that, whereas winter always brings a decline in gasoline consumption, producers and refiners are continuing operations at nearly summer rates, resulting in increased stocks and serious threats to the price structure.

Underwood & Underwood

MORE OIL MEN—*On this page, Messrs. Pratt of Standard Oil, New York, Leovy of Gulf Oil, Dawes of Pure Oil, Holmes of Texas Corp. They constitute the exposition committee of the American Petroleum Institute*

In Texas Governor Sterling has again cut the allowable output per well in East Texas fields, this time from 125 to 100 bbl. per day. Pipeline runs from the field have averaged 380,000 bbl. per day recently, indicating the extent of demand; output has been well over 400,000 bbl. Until new wells again change the picture, the latest edict will reduce the field's output to about 340,000 bbl. daily.

In Oklahoma a move is under way to have the prorating body reduce total quota for the state from 550,000 bbl. to 500,000 bbl. daily. At present about 50,000 bbl. is going into storage daily.

In California a reduction of daily output quota to 450,000 bbl. from the present 500,000 bbl. allowable is being sought. Chief opposition comes from some Kettleman Hills producers who are already shut in to an unusual extent and are seeking more leeway in their production quotas.

Gas Stocks Gain

The statistical committee of the A.P.I. recommended a sharp drop in crude output in November and again in December; the same for refinery runs. Output actually increased in November, however, and December declines have been far less than those recommended. Crude runs to stills likewise remained above demand so that gasoline stocks gained 2.4 million bbl. in November to a total of 37 millions compared with the recommended total of 34.6 millions.

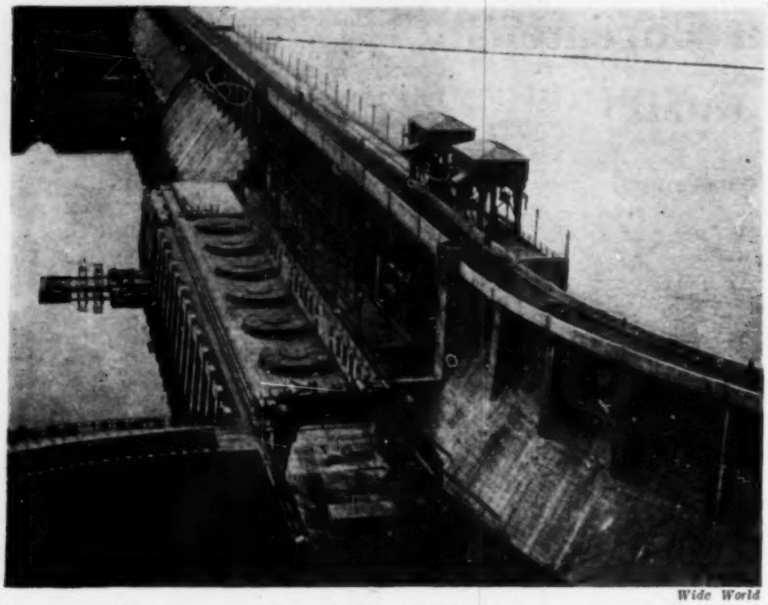
Opinion is growing throughout the industry that the time has arrived for a general meeting of industry, state, and national government representatives to decide upon measures needed to prevent recurrence of conditions experienced during the last year or two. Several local organizations and trade papers are actively behind such a meeting and it is likely to be called before many months elapse.

Alcohol Makers End War, Mark Up Prices

REVERSING the policy of a year ago, when they tried to attract buyers through lower prices, industrial alcohol manufacturers have announced higher quotations for the first quarter of 1932.

This closes a destructive price war. Early in 1931, large surplus stocks intensified competitive selling so that many contracts were made at prices below production costs.

The new increases on denatured alcohol range from 6½¢ to 10½¢ a gallon;



Wide World

READY TO GO—*The great Bagnell Dam in Missouri, ready to start generating for St. Louis, and the newly created Lake of the Ozarks*

formula 5 at New York in tanks is now 31½¢ a gallon; it was 25¢.

While the new prices represent a considerable improvement, no unusual profit is expected. Just before the outbreak of the price war, commercial alcohol sold for 40¢ a gallon. Rather than advance prices to a higher level that might be difficult to maintain, the large producers evidently seek to stabilize at a living profit.

It is thought that the new prices will hold. Surplus stocks are considerably below the level of a year ago. Production also is less, the output for 10 months of 1931 being 9% under 10 months, 1930.

Demoralization was precipitated when business depression and increasing competition of other chemicals decreased sales. Consumption in 1931 has continued small. Sales of specially denatured alcohol declined in 1931 about 20% below the 1930 level.

U. S. Chamber Plan Recognizes New Trend of Business Thought

APPROVAL by referenda of recommendations of two of its committees put on record this week the long-expected program of the U. S. Chamber of Commerce for business and employment stabilization. Eleven proposals, all carried by the necessary two-thirds vote of members, were contained in reports of the Special Committee on Continuity of Business and Employment and the Natural Resources Committee appointed at the last annual meeting of the Chamber in May, and headed respectively by Henry I. Harriman and Matthew Sloan, utility executives. Main points in the program are:

(1) Establishment of some sort of national economic council. The Chamber's referendum does not specifically say that a council should be set up, but suggests that "the principles of a national economic council should be placed in effect." These "principles" presumably refer to suggestions in the committee report that some sort of effort is needed to aid business in planning; that it should not be in form of a governmental agency, should not be a planning board itself, but a purely advisory body composed of 3 to 5 men selected by a larger board composed of representatives of all business, governmental, and professional interests brought together by the Chamber, but leaving the council itself independent of the Chamber.

Giving full time to the work, liberally paid, supported by a statistical and economic staff financed by private funds, the council should gather information and make studies on important economic questions for the general guidance of business. Trade associations in each field of business should be set up to perform similar functions.

The Sherman Act

(2) Modification, but not repeal, of anti-trust laws (a) to permit agreements to control production, under governmental supervision to see that agreements are in the public interest for the stabilization of business and employment; (b) to provide some opportunity, under the law or otherwise, for business concerns to get advance sanction or condemnation of proposed mergers; (c) to permit some federal agency to authorize agreements to curtail production in natural resource industries where overproduction injurious to the public interest is found.

(3) Immediate unemployment relief as needed by local action and private funds, supplemented by state and local but not federal government contributions; the long-term problem of employment stabilization to be met by individual employers dividing up work, and setting up private unemployment benefit reserves, made uniform so far as possible from state to state in each industry by trade association action.

In these suggestions there is nothing novel or promising for concrete action in the near future, but they indicate finally a definite and noticeable response on the part of the Chamber to the trend of public and business opinion. The referendum and its result is an official public recognition by the Chamber of the depression and the problems it has put to American business.

Aluminum Hopper Car 21,200 Pounds Lighter

RAILROAD men see many possibilities in the aluminum rail hopper car, just built by the Canton Car Co. for Aluminum Co. of America.

The car, 70-ton capacity, is on the pattern of a steel car, but its body and underframe are all of aluminum alloy. Advantages claimed are a saving of 21,200 lbs. in weight of an average-size car and lower maintenance cost, due to the non-corrosive properties of aluminum.

Aluminum Co. of America has placed an order for 10 such cars. They are to be used for transport of British Guiana bauxite (aluminum ore) from New Orleans to plants in East St. Louis.

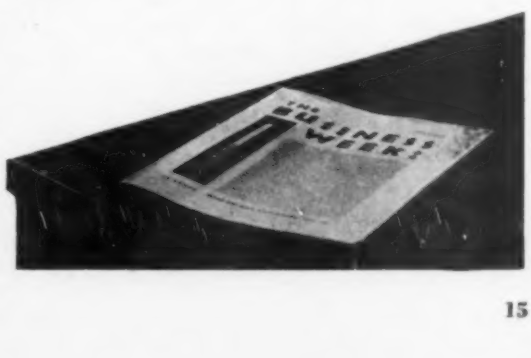
He got a bird's eye view of his sales problem / / / /

The president of the business equipment company had concluded his conference with the sales manager . . . They agreed that it was riotously expensive to send salesmen to remotely problematic prospects.

It was natural then, that he should next approach the executive in charge of advertising with this observation:
"Take a look down there . . . hundreds of prospects for someone's goods . . . mighty few for ours. Wouldn't you say that the view you see represents a gob of some magazine's circulation, which costs us so much per name to cultivate?

"Yes, sir," replied the V. P. "it does, but on the other hand it does not apply to some strictly business publications which are continually improving their coverage . . . weeding out the small businesses which buy little . . . concentrating on the large ones which have the need for our service and the ability to pay for it.

"Fine answer," commended the president "then you have the picture of the class of publication geared to carry our advertising without making us pay for the little names, which to us is waste circulation."



Transcontinental Battle Rages for Control of Transamerica

Wires crackle with hot words as Giannini and Walker tussle for biggest trust of all

THERE occurred last week in Wall Street an event as rare, and as momentous, as an earthquake in San Francisco. The lie was passed.

Not since the robust weather of Roosevelt's time had such a thing thundered down from such an altitude.

After a Homeric exchange of more general denunciation by the professional press agents of the distant and rival camps, there came from Elisha Walker, 44 Wall Street, chairman of Transamerica Corporation, and from Amadeo Peter Giannini, advisor to and boss of Associated Transamerica Stockholders, P. O. Box 1062, San Francisco, the heroic detonation.

244,500 Stockholders!

Addressed to 244,500 stockholders of Transamerica's 24,000,000 shares, resident in every United State and in 30 foreign lands, it was heard everywhere.

Wherefore? A proxy fight for the control of the largest holding company in the world, for such is still Transamerica whether it be right side up or apex down in the sand, pyramid of financial pyramids.

All men of markets know and will not soon forget how Giannini, largest single fist in bankerdom, acquired Elisha Walker's Blair & Co., after Transamerica's unpleasant 1928 setback from bears; how Chairman Walker of Transamerica replaced retiring Giannini; how Transamerica new stock after a 150% stock dividend was at 67⅜ from 168⅜ before; the crash and Giannini's return to combat; the heroic public pool to save the stock—which never functioned; its decline in 1930 from 25 to 10; California's alarm and the rescue squad of Lee, Higginson men.

New Policy Adopted

The Gianninis gracefully out, a fresh board faced the world. New policy was splendid and reassuring. No more branch banking dreams. Divorce of stock jobbing from institutional banking. Sale of New York's Bank of America to National City through exchange of shares. Return to legitimate investment trust type. Separation of Blair & Co., from Transamerica. Chief Walker to stick it out with Transamerica. Stock at $4. All well. But—

There were rumors from California. Giannini was talking, not yet in meeting but to tourist groups of stockholders in his familiar office. He was not contented with Walker's policy. He would resist, perhaps.

Nov. 7 A. P. Giannini signed "Cordially yours" to 244,500 Transamerica stockholders at the end of these two sentences: "If a sufficient and prompt response, through proxies, indicates that it is desired that I take the leadership of the Association, I stand ready to do so, and pledge to my old Transamerica stockholders my best efforts in their behalf. The decision rests with you." The prose was nice, if strong, because it was the prose of Lawyer Hiram Johnson, Senator.

"There are many who believe that the present unfortunate position of Transamerica stock is due to manipulation, and that the value of the stock has designedly been depressed out of all relation to its real value. It is our intention to make diligent inquiry into all market transactions in Transamerica stock, salaries paid and agreed to be paid, and other expenses, purchases and sales, etc., of Transamerica and subsidiaries. We will endeavor to ascertain all facts available in regard to these matters prior to the annual meeting."

Reply of the Walker camp was to move the date of the annual meeting from Mar. 31 to Feb. 15.

There was a meeting of lawyers, tussling over securing access to the list of 244,500 stockholders. The "usual" addressograph privilege, as the less usual photostat procedure, was ruled out in favor of six (6) copyists. This caused great delay. Meanwhile, the stock at $2.50.

Now for the allegations, as emitted by the highly skilled press-agentry of the 2 camps:

(1) Giannini's lead. The published

Herbert

RETURNS TO BATTLE—*Amadeo P. Giannini emerges from retirement to fight for control of Transamerica, biggest investment trust of all*

and circulated insinuations of the above document about salaries and expenses. Oral remarks to California followers, loose phrases to newsmen about Walker's bonus. Reference to 7½% of net profits. Reiteration of a life-long plea that he be left alone in peace as a poor man, with a quarter of a million or a half million for total fortune, no salary, almost all income given to charity, chiefly University of California.

Mr. Walker:

(2) Walker's lead. Letter of Dec. 9, from Transamerica's San Francisco office, signed Elisha Walker, chairman, James A. Bacigalupi, president, stating to all stockholders 11 defensive facts, praying for proxies. Accompanying longer letter, management's complete revelation of Giannini's past money relations with the company.

(3) Giannini's lead. News despatches Dec. 10 from the town of Salinas, Cal., where pursuing newshawks caught Giannini, his son L. M. (Mario), and A. J. Scampini, on their way to a proxy-gathering speaking tour of Ventura, Santa Barbara, and points near by, and showed them the Walker letters.

Mr. Giannini:

Said Giannini: (a) The letters were timed to catch him unawares, a clever trick. (b) It was an attack on his personal honor and integrity. (c) He would now definitely lead the fight to the finish against Walker and Wall Street domination. (d) He would lay open his books, personal and business, before a committee for investigation if Walker would do the same thing. He suggested that it would be fitting and proper if the PRESS—the Press, boys—would name that committee. (e) "This fight will be based on California control for California stockholders against the domination of Wall Street." (f) "When I retired from Transamerica I was entitled to 5% of $83,000,000 which I did not take. There are 5 of us in the Giannini family and our total wealth doesn't come to a million—no, nor to half a million." "We expected this. After searching my record for 27 years as a banker, all they can say is that I tried to keep up the price of Transamerica stock when the market was falling and that I was credited with $3,700,000 in bonuses."

Lots of Facts

(4) Walker's lead. Releases to the press of:

(a) A comprehensive digest of the whole row, with lots of facts, for publication Dec. 11. Some word choices: "ends its silence," "brands," "arraigns," "reproaches," "Mr. Walker has never sold a single share of his holdings or in any way speculated in the stock directly or indirectly."

(b) "Memorandum for the Editor," as of Dec. 13 restating the charges about how much money Giannini got from Transamerica, $3,700,000 during 1927-1930.

Attached to this memo for the editor was an audited certificate by Ernst & Ernst, Accountants and Auditors, 2 feet high by 15 inches broad that had been sent by telephoto from San Francisco.

(c) Since the elaborate account was difficult reading, there appeared Dec. 14 a concise and admirably clear translation of it. The gist of it: that Giannini had fallen into the habit of sort of vaguely drawing on the company for expenses, taxes, advances on stock purchases, charitable gifts, club dues, insurance, payments to individuals, etc., at the total rate of from a quarter of a million a year to a million and a half a year, against his recognized rights to a commission of the profits.

Newshawks elicited from Walker headquarters the admission that Giannini was quite entitled to all this but that he shouldn't be crying out loud about other people's salaries and bonuses when he was being so handsomely looked after himself. He had started all this with his hints, and here was his little expense account.

The chances on the fight? The most careful reporting in the necessarily best-informed quarters showed that it is a wide open proposition. Giannini has admittedly on his side more than half the stockholders. But half the stockholders own one-twelfth of the stock. Three-fourths of the stockholders, and stock, are in California. He is now after big fellows along with little ones.

The Magnificent Look

His method is admittedly capital, admittedly difficult for Eastern press agents to imitate. He goes daily, nightly from town hall to town hall, church to church, opera house to opera house, sitting in the middle of the platform as his trained orators make appeals. He applauds, waves cheers over audiences, says a few moving words. He is no orator outside board rooms but magnificent to look at and deeply loved.

His campaign theme is West versus East, California against the Octopus of Wall Street. His orators harp on how rich Giannini made California.

Last week the Street enjoyed it; the Street dearly loves a good fight and gets one so seldom.

It Wasn't "California Weather" But It Helped the Grape Growers

At the end of its second year with Farm Board assistance, the California grape industry does not find itself any too prosperous, but acreage has been heavily reduced on account of bad weather, depression and general discouragement, and there will be no carry-over of 1931 raisins into 1932.

The special cooperatives organized under the Farm Board's auspices, the California Grape Control Board and the California Raisin Pool, seem to have functioned more smoothly this year than last year, which saw their start, and to be in stronger position than they were at the end of the 1930 season. Marketing has proceeded in fairly orderly fashion.

There seems little doubt that the Farm Board has helped the industry out of a bad situation in 2 ways: (1) by making loans of several million dollars available at a time when the banks of the state were no longer in a position to carry such loans; (2) by making such loans contingent on some sort of concerted and businesslike action on the part of the growers themselves.

Even though whatever high prices there were can be attributed to weather conditions and the insect damage, the Federal Farm Board has succeeded in making the grape industry put a little order into its marketing.

As the effects of the unusually hot, dry weather became apparent, crop estimates continued to be revised downward — from the initial figure of 1,732,000 tons until the final estimate made toward the close of the shipping season in November came to 1,296,000 tons, of which 341,000 were wine grapes, 734,000 raisin grapes and 221,000 table grapes.

During the summer the raisin prices became firmer and stocks moved rapidly. By the middle of August the final offering of the 1930 stock was made—31,567 tons by the Raisin Pool. Prices on this lot were up 0.25¢ a pound on package goods, 0.125¢ on bulk stocks.

The fresh grape part of the in-

dustry fared much worse in spite of high prices on some varieties, and a generally short crop. The hot weather brought the juice grapes, particularly the wine varieties, to maturity about 2 weeks earlier than normal and they were forced onto a market not yet ready for them and very skeptical of the reported shortage. After vigorous advertising, prices picked up and the season as a whole averaged about 10¢ a package above that of 1930. But, compared with prices for several years previous, this was pretty low. The year's total shipment was estimated at 36,300 cars as compared with 60,900 cars last year.

Concentrates Still Sold

The by-products branch of the industry, represented by Fruit Industries, Ltd., made a radical change in its operations following the decision of a federal judge of Kansas City that the delivery to a home of grape juice capable of fermenting to more than 0.5% alcohol constituted an intent to break the law. The concentrates, however, are still for sale and Fruit Industries announces its intention of continuing their manufacture.

Brazil's Coffee Plan Leaves Bankers Skeptical

WORLD bankers listened with interest but without being deeply convinced when Brazil's new Finance Minister, Dr. Oswaldo Aranha, explained the country's new coffee-funding plan.

The National Coffee Council requires approximately $38 millions to withdraw 12 million bags of coffee from warehouses, and to purchase the excess of this year's crop, according to the latest plan to maintain coffee prices.

Dr. Aranha says now that the Council will operate its plan by drawing against the Bank of Brazil during 16 weeks and, at the same time, it will turn over to the bank the proceeds of all its collections. Including the old export tax of 10 shillings a bag and the new tax of another 5 shillings, these should total about $18½ millions. This would leave at the end of the 16 weeks a debt with the Bank of Brazil amounting to $19 millions.

At the end of the 16 weeks, however, the Council will stop drawing on the bank, but the proceeds from tax collections will continue to be paid. According to the calculations of the Finance Minister, the debt would be liquidated by late August. But bankers and coffee brokers are skeptical of its success.

Local Governments and Taxes Bigger Problem Than Federal

Business, watching Washington, begins to realize that most of the waste is right under its nose

WHILE Congress struggles with the national financial situation, the financial troubles of state and local governments have taken on the proportions of a national problem. While the press discusses the deficit at Washington, the difficulties at city hall, county court house, state capital, and other government centers confront the business man with a far more serious threat.

The fact that he is, at last, beginning to realize this is the one encouraging feature in a gloomy picture of declining revenues, expenditures which grow even in a depression, widespread mismanagement, ineptitude, and general lack of attention. There is now some hope that the muggy, fetid atmosphere surrounding state and municipal finance may be cleared away in the biting winds of depression, even though considerable grief be precipitated in the process.

Expenditures are being cut, in some cases, while irate taxpayers wait menacingly in the council chamber. Philadelphia has just seen 15,000 stage a demonstration against a proposed tax increase. A Chicago delegation has invaded Springfield in a similar protest. At Rochester, Minnesota, an angry group of farmers invaded the commission chamber and stayed until $75,000 was lopped from the budget. Next year's budgets are smaller than this year's in 86 Indiana counties. North Carolina has cut wages of state employees.

Cleveland has cut nearly all salaries. The Iowa legislature has made a general 5% tax cut mandatory. In Utah 36 counties have cut their budgets, while in California 45 of 72 city budgets have been reduced. Chicago and other cities consider salary cuts. Telephones have been removed from most county offices in one Indiana county and Detroit considers dimming part of its street lights. Westchester County, New York, has cut all except lowest salaries 10%. Organized moves against expenditure are on with special vigor in Ohio, Wisconsin, Utah, Indiana, Florida, Colorado, Tennessee, North and South Carolina.

Acme

"RAISE TAXES AND RAISE HELL"—*Angry Philadelphians, some thousands of them, persuade the City Council to reconsider its plans for a tax increase*

Questionable functions are beginning to be abandoned, overlapping units slowly and painfully consolidated, unnecessary improvements postponed or dropped. Seldom has such a healthy interest been displayed in local finance. Little Rock, Ark., has abandoned further building. Cook County, Ill., citizens are seeking some way to reduce the overhead arising from 419 governmental units. Allegheny county (Pittsburgh) people have tried to consolidate their 123 separate units of government. A Tennessee group advocates reduction in counties from 95 to 60. A strong demand is being made to cut the number of counties in Missouri from 114 to 30. North Carolina has consolidated road and school functions.

Business Pays Bill

Business is learning that it has good reason to take this interest in the financial problems back home, however large the headlines that direct its thoughts to those at Washington. One dollar out of every 8 or 9 of national income goes to taxation and about 65¢ of that dollar is collected by state and local governments. Even some of Uncle Sam's 35¢ is turned back to them. The accompanying chart (page 20) tells the story.

Furthermore, state and local governments account for about $13.5 billions of the country's $30.3 billions public debt. Yet, though their shortcomings are reflected directly in the burdens they place on business, the banks, real estate, charity and Uncle Sam, until recently all the attention given public finance has been concentrated upon federal finance.

Local Extravagance

State and local taxes are imposed and debts assumed by scores of thousands of minor governmental units—nobody knows how many, but estimates range from 50,000 to 500,000. Both the state and local tax and debt structures, like Topsy, have "just growed." Constant demands for more governmental services and seemingly inexhaustible funds from taxes on a "prosperous" country—and from the security markets—have spurred the growth. The extravagances of German municipalities, so frequently criticized, have been duplicated here. Economies by the federal government, bringing lower federal taxes and reduced debt have been almost completely counterbalanced by state and municipal extravagance.

The depression has brought the inevitable consequences. State and local revenues have come tumbling down just as have federal revenues. Delinquencies in the payments are huge—20% to

30% in some cases. Time limits for paying taxes have had to be extended widely. Bank failures have frequently augmented the trouble by tying up funds. Expenditures aren't being met, deficits are piling up.

It is becoming increasingly hard to meet these by the borrowing that can be resorted to in the case of the federal deficit. Detroit has had some trouble borrowing and Chicago is finding it almost impossible. Philadelphia has just been unable to meet its payrolls. A large number of governments have found it impossible to sell bonds, recent ones including Hawaii County, Hawaii; San Francisco; Waterbury, Conn.; Perth Amboy, N. J.; San Antonio, and the state of Tennessee.

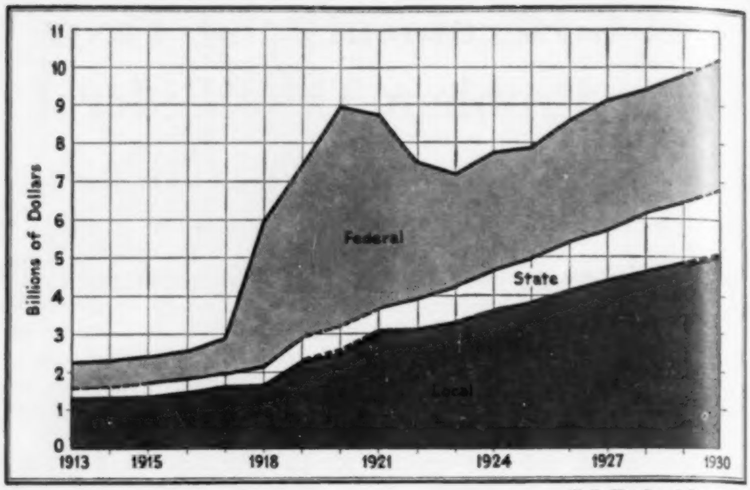
Can't Sell Bonds

The municipal bond market is seriously demoralized. Catastrophic declines in corporation bonds have been equalled by drops in local, state, and municipal securities. A careful investigator of the Federal Reserve System, Dr. W. R. Burgess, notes that only securities of highly rated Eastern governments find any market. So serious is the situation that the federal Treasury and the Federal Reserve Banks are seeking some method to relieve it. Doubtless when the Reconstruction Finance Corp. is authorized heavy demands will be made upon it. The inability of many governments to borrow after revenues have collapsed means that a considerable number of obligations have been defaulted, and many more are perilously near to default. The past 5 years have put on record 165 cases of such default in 20 states. Leaders are Florida, North Carolina, Texas, and Washington. Until this week a year-end default seemed inevitable for Chicago; that prospect still faces a host of other units.

Few Local Giants

Unfortunately, there is no one to take the firm hold on such situations that Messrs. Hoover, Mellon and Mills have applied to the disorganized state of federal finance. In too many state capitals and city halls there prevails a degree of ineptitude which, a close student has said, would make a business organization blush with shame. And if his castigation is not merited by all state and local governments, or even by the majority of them, it is applicable to enough of them to cause real concern.

As a result of all this, the national principle of dependence on local aid to care for the unemployed faces serious obstacles. State and local governments seeking to grant aid find themselves severely restricted by budget difficulties, are even forced to abandon a large amount of public works. This throws the relief job upon charity. If charity falls down, the burden must be passed on to the federal government with consequent danger to federal finance.



U. S. Chamber of Commerce

OUR CLIMBING LOCAL TAXES—*Estimated total tax collections by federal, state, and local governments. Dotted lines indicate lack of data for more than approximate estimates; figures from Treasury reports and the National Industrial Conference Board*

As another consequence, banks and other financial institutions are confronted with difficulties arising from the fact that they are heavy holders of municipal obligations and are heavily involved in short-term loans to state and local governments which have resorted to this type of finance upon becoming unable to sell long-term securities in the open market.

Protest Is Heard

But the protest is beginning to make itself heard. Taxpayers are finding the burden of state and local taxes and debts intolerable at the present volume of business and the present price level.

Farmers and other property-holders, especially heavily burdened, are heading the rebellion. The National Association of Real Estate Boards, taxpayers' organizations, the Chamber of Commerce, the American Bankers Association, among other groups, are giving it national scope—and big corporations, long burdened by heavy state and local taxes, are joining the ranks.

Cans, Tobacco, Best Maintain Dividends

CAN manufacturing companies pay the steadiest return to their owners. Their dividends still are at the high rate established in December, 1929, according to a study by Moody's of dividend payments of 600 companies—first study of its kind. Tobacco companies are next in stability, their present payments but 2.5% under the peak.

Banks, public utilities, and shoe concerns have reduced payments to stockholders but 6% from the highest level.

Food concerns have cut 11% and insurance and chemical companies 14%. Electrical equipment companies pay out 16% less and drug companies 18% less. Dividends paid by retail trade companies have declined 21%.

Other industries show dividend cuts as follows: agricultural implements, 26.3%; office equipment, 34.9%; automobiles and trucks, 35.3%; machinery, 29.7%; railroad equipment, 40%; railroads, 41%; oil, 50%; building and building materials, 50%.

Eight industries are off more than one half. Apparel and textile, 57.6%; auto accessories, 60%; steel, 57%; tire and rubber, 57%; sugar, 68%; mining, 72%; theater, 86%; copper, 91%.

Individual Ladders For Upper Berths

EVERY upper berth in a Pullman on the North Western Limited between Chicago and the Twin Cities is now equipped with its own ladder.

When the porter makes up the berths at night he attaches a specially designed folding ladder; there is no waiting night or morning for "George" to bring the portable ladder commonly used.

World Trade Reels Under Shock Of Tariff and Currency Upsets

SHAKEN by a volcano of new tariffs and depreciated currencies, world trade is registering shocking results.

Though American foreign trade showed a favorable balance of $43 millions in November, imports were the lowest of any month since August, 1915. The month's export total of $193 millions was smaller than the October figure and was only 67% of the value of exports in November last year, despite the fact that cotton exports to the Far East were unusually heavy in November.

America's excess balance of exports for the first 11 months is smaller than it has been since 1926.

Queer British Figures

Great Britain's foreign trade figures are interesting. Since sterling went off gold in September, British industry, particularly textiles, have been booking large orders, reopening long-closed mills. The unfavorable trade balance stood a fair chance of dwindling to the point where British invisibles could turn it favorable.

New factors have prevented this result. The British elections returned a government pledged to protection. The Abnormal Imports Act, requested by the president of the Board of Trade Nov. 16, passed the Commons Nov. 19, became a law Nov. 21. Short as the warning was, foreign manufacturers rushed bulging bottoms to England, piled up as large stocks as possible before the tariff became operative.

Results show in November statistics. Shipments in the new export revival scarcely have had time to take effect. Total exports showed a decline of £1,288,000 from October levels, imports jumped ahead £2,545,000. The registered totals for November: exports, £36,820,000; imports, £83,230,000.

Raw Materials Enter

One encouraging feature pointed out by London is the substantial increase in raw imports over October, indicating greater industrial activity. Cotton, wool, and rayon, especially, entered the country in greater volume. Iron and steel, and coal exports showed declines compared with November, 1930.

French trade is slumping rapidly. The unfavorable balance for November is $16 millions, for the first 11 months is $354 millions. Imports in the first 11 months were down $275 millions, exports $361 millions. Foreign trade this year is off 33%.

Like the United States, Germany reports a favorable trade balance for November, but it is smaller than record balances of recent months, substantiates Germany's fears that her one source of revenue to meet debt obligations will be found barred to her by tariffs.

November exports, while they totaled $178 millions, were off 15% compared with October. Imports reached $115 millions, almost exactly the same as in October. Imports of raw materials rose 18% compared with October, while imports of foodstuffs and finished goods dropped off correspondingly. Cotton imports from the United States were $2 millions above the October figure.

From October's record export surplus of $93 millions, November's fell to $63 millions, practically the same as in July. The total favorable balance for the year, however, is $625 millions, double that of the United States. December is likely to show a further decline in Germany's surplus due to British tariffs and to obstructions put in the way of German exports by almost all neighboring countries.

Britain's "Order No. 3" Hits American Exports

CHRISTMAS will be a bit less festive for a half-dozen important American exporters as a result of London's latest tariff boost.

Effective Dec. 19, a new 50% ad valorem duty is levied on cotton piece goods, cameras and photographic films, electrical fittings, radio tubes, hosiery, lawn mowers, and other manufactured articles.

Though the total value of imports in these classifications last year approached $100 millions, only $4½ millions were from the United States; of this amount $100,000 was for cameras on which there was already a 50% tax, $830,000 for films, $375,000 for electric light fittings, $220,000 for lawn mowers, $200,000 for rubber-proofed tissues. American cotton goods imports—including certain ready-made garments—were worth $1 million.

In this "Order No. 3" from the Board of Trade acting under the authority of the recent Abnormal Imports Bill,

Germany again is the greatest sufferer, with other Continental countries threatened far more than the United States.

The Eastman Kodak Co., probably the largest individual American firm to suffer under the new impost, has already announced through its European manager that it will hereafter manufacture practically all roll film for British consumption at its Harrow plant, will employ another 300 to 400 people in expanded operations. American typewriter manufacturers, warned in an earlier order, are planning expansion of their plants in Canada or building factories in Britain.

Motor Exporters Get New Blow From Spain

SPAIN bought 14,000 automobiles—trucks and passenger cars—from the United States in 1928, about 13,000 in 1929, just over 6,200 in 1930, while 1931 has been even more gloomy for automotive exporters.

Recent treaty changes legalized by Madrid present a fresh threat to Americans attempting to sell in Spain.

Nov. 10 a new Franco-Spanish trade treaty was signed. It established a 50% tariff decrease on certain French products, including automobiles. Later this concession was passed along to 32 other countries. The United States, however, was excluded.

Of the 32 countries to which the advantage was extended, 3 offer really threatening competition to Americans. These are England, Germany, and France. Under the old non-discriminatory arrangements, American cars made up 90% of Spain's automotive imports.

The automobile industry has appealed to Washington for aid in winning equal consideration for Americans. Under the penalty clause of the new tariff act, the President has the authority to increase up to 50% the duties on products of any country which discriminates against American products in its tariffs.

A second unfriendly move from the new Spanish republic was the threat, already withdrawn, of nationalizing the properties of the Spanish National Telephone Co., $70-million subsidiary of International Telephone & Telegraph.

Recent reports from Madrid declare officially the bill containing the proposal has been withdrawn, but there is still some uneasiness abroad over republican reaction to public contracts carrying over from the old régime. The Cortes reconvenes in mid-January.

Business Abroad—Swift Survey Of the Week's Developments

Christmas cheer, when parcelled all the way around this year, amounts to little more than the hope that the momentary lull in the chain of distress events will hold until the plum pudding is digested. 1932 offers only bleak prospects. . . . France, behind a bold mask, is tremendously worried over mounting unemployment, the avalanche of tariff reprisals. . . . Germany is grim, concentrating on demands under the latest emergency decree in order to force back the spectre of revolution. . . . Britain is losing its recent enthusiasm, is afraid to plan far ahead. . . . Japan is preparing to clean up in Manchuria. . . . Latin America is thrusting a thumb into the tariff pudding. . . . The lull before the new year is but the calm before a very bad storm of events which is likely to break by mid-January and which is pretty certain to center in Germany.

Europe Sees Congress Blind to Real Crisis

European News Bureau (*Radio*)—No development during the week has been viewed with greater alarm in Europe than the reaction of Congress toward the reparations question and the moratorium. Not only does Washington ignore the need of debt revision, but it opposes violently any plan for extending the Hoover moratorium beyond July.

Rightly or wrongly, Europe has expected Congress to realize that the debt holiday was only an alternative to an absolute default of obligations which, should it occur, would bring a general breakdown of the gold standard. And when Congress realized this situation, Europe expected it could do nothing else than take the initiative toward working out a cohesive plan, perhaps leaving to the future and future conditions the final question of revising basic debts, but at least suspending or reducing the servicing for the remainder of the depression period.

Washington's manifest blindness to the realities of the situation is considered most disturbing. In one sense what Congress does or fails to do does not matter since almost certainly either under a debt holiday or due to a complete default, the United States will not receive any sizeable part of the payments really due in 1932. Congress is powerless to alter these circumstances. But by anticipating the inevitable, it would be able to regulate any suspension of payments under mutually agreed moratoria and thereby would turn the destructive effects of successive defaults into a positive element of economic revival, at the same time preserving underlying capital values, some of which may otherwise be lost entirely.

Germany the Key

In Europe, the crux of the situation lies in Germany. Unless some substantial concessions are accorded by the reparations conference, the Bruening régime seems doomed. Control of Germany then would rest between communism and an industrial oligarchy backing Hitler. The second is the more probable, but either stands for repudiation of further political tribute.

In the final analysis, neither Hoover nor Congress, but Bruening, represents today the rock on which the present order of things, including American government claims and probably a large part of American private claims not only in Germany but in Europe, will either stand or founder.

Other events closer home, are negatively favorable. They hold no great hope for the future but they have not at least raised any immediate problem. Europe's Christmas present from Basle is an inoffensive affair more pleasing to the French than to almost anyone else. After weeks of bargaining everyone has decided to compromise. But France seems to have poked in the last word.

Conferences Get Nowhere

At Berlin where bankers have been talking about Germany's commercial debts and waiting for some decision from Basle, they have given up, accomplished nothing. Fresh discussions are scheuled for Dec. 28.

These preliminary conferences having gotten nowhere, Europe now is looking ahead to decisive reparations conferences, expected to begin about Jan. 15. To follow on Feb. 2 is the disarmament conference.

The stage for these critical gatherings is set against a background of imminent political revolution in Germany, and both social and political revolution in Austria. It is not difficult to foresee that the early weeks of the new year will be tense with developments and decisions of world importance.

Meanwhile, the Christmas holidays and the usual window-dressing for the new year is befogging long-term perspective, confining the trend to current developments which momentarily are favorable. Europe watched the early rally in Wall Street, on anticipation of the ratification of the Hoover moratorium, with considerable relish. Lamont's encouraging exposition at Washington of the short-term debt situation had its effects. In Europe as in the United States there was a momentary lift on security markets, commodity prices were up, foreign exchanges were steadier.

This improvement, probably transient, reflected itself in spite of adverse local events of no little significance. The bankruptcy of the huge Borsig works, machine manufacturers, in Germany, the closing of the enormous Belgian glass factories, and of the entire Lyons silk industry in France, and the announcement that Hungary has declared a moratorium, effective at once, indicates how widespread and how serious the situation has become.

To these alarm signals can be added the fresh trade complications which have arisen as a result of the denunciation of the old Germano-Swiss trade agreement, and the termination of the Franco-Italian agreements with retaliatory measures already causing friction. And only the warning of what can be expected in the final tariffs is suggested in the first 3 orders under the new British emergency duties. The net position is one of superficial improvement. Expansion of the depression, and soon, is inevitable.

Commodity Gains

Cereals, cotton, rubber, and copper have led current price advances in the commodities. The improvement of copper is due to the announcement of the international agreement regulating production (page 6) which finally has been reached; advance in rubber is due to better equilibrium of current supply and demand and to the renewed prospect of an Anglo-Dutch agreement regulating output.

The statistical position of cereals unquestionably is stronger and is the most encouraging economic factor with which the new year begins. With particular reference to wheat, the recent summary from Broomhall, England's leading forecaster, declares: "Russia's practical withdrawal and the prospects of smaller Danubian shipments would naturally

have greater effect if importers were not expecting large Argentine and Australian offers soon. It is permissible to argue that the prospective increases in supply will be fully offset by decreases, but we do not think that shipments from South America to Europe now on their way will be much in excess of what we have been getting ordinarily from Russia and the Danube."

The point of this statement is that Europe must continue to buy substantial quantities of wheat from North America. Europe thinks fully 8 million bushels of Canadian and United States grains will be required weekly for the next 7 months. Buyers may want even more since it is the general expectation that the Continent will have relaxed its import restrictions before spring. On the other hand, it is possible that Great Britain will import less and Russia may resume offerings in the spring.

Holland Fairly Safe

The Dutch guilder has been under speculative pressure. Holland is particularly affected by the abandonment of gold in other countries which either are its principal export markets or principal competitors, but Dutch bankers were the first in Europe to repatriate foreign balances and the country is literally packed with gold so that close observers are confident it will be able to maintain the gold standard, providing there are no other major abandonments.

Meanwhile, there is renewed uneasiness over the stability of the dollar, as reflected in the widening discount futures and in Lloyd's insurance premium on the United States not abandoning the gold standard, which is now 12½%. The calculation probably is founded on this sequence; possible German revolution and repudiation of reparations, followed by enforced repudiation of war debts owed the United States.

Hungary's Way Out

Parliamentary ratification of the Hungarian moratorium, forecast in *The Business Week* (*BW—Dec16'31*), led to the public declaration Dec. 22. Hungary's total foreign debt is $700 millions; annual service is $52 millions. American capital in Hungary is estimated at $128 millions. The moratorium applies to all but the 7½% state loan of the Kingdom of Hungary 1924, suspends all but $5½ millions in payments, which is considered the maximum the country is at present able to sustain. Probably other Danubian countries will be forced to follow suit, the likeliest being Austria, where American capital is estimated at $117 millions, and possibly Yugoslavia, where $75 millions of American capital would be affected.

Germany Turns Back To Its Own Big Job

Germany is afraid foreign creditors will agree on no plan for debt relief. . . . Emergency decree brings results. . . . Hanomag and Borsig fail.

BERLIN (*Cable*)—Germany is very much perturbed over the insignificant accomplishments of the Basle conference and the inability of the Berlin negotiators to accomplish anything. When the unfavorable Washington reaction to the moratorium and aid for Germany were published the public resignedly turned its attention to the business of carrying out the provisions of the last emergency decree.

To Germany this is the climax of Bruening's indefatigable efforts to hold Germany together until foreign creditors can work out some scheme whereby Germany can pay on a reduced scale. The inability of any foreign power to initiate a program in the 6 months which have elapsed since the moratorium was declared has roused fresh fear in Germany. Unless some substantial concessions are accorded by the reparations conferees when they assemble in January, the Bruening régime seems doomed.

The emergency decree is bringing about the required results. Prices on the majority of basic commodities, including coal, steel, potash, and cement, have been reduced the required 10%. Tram fares and gas and electricity rates are also down. Food prices, however, are lagging despite the efforts of the Food Commissioner to enforce price reductions. Chocolate and cigarette manufacturers are refusing to cut their prices further on the claim that they have already made reductions to the very limit of their ability.

The savings on interest payments under the provisions of the decree are not small. On real estate obligations it is estimated that an annual savings of $70 millions is possible. To agriculture the saving is $50 millions. No accurate estimate of the savings to industry has been made, but it is known that the benefits are smaller because 72% of industrial indebtedness is on foreign loans which are not affected in the decree.

The tariff epidemic and the spread of currency depreciation has caused increased contraction of industrial production with the machine building industry in November working at 34% of capacity, against 38% in October.

The week's sensation is the failure of Hanomag, manufacturer of tractors and trucks and one time important cog in the German locomotive industry, and of Borsig, one of the country's largest machine builders. Borsig, next to the Krupp Works, is the largest German group owned by one family. It comprises extensive coal mines, steel furnaces, and mills in Upper Silesia. The company has on hand $3 millions in orders. Half of the 1931 business was on orders from Russia, and 80% of the year's total was for foreign order.

Reasons for the failure are (1) losses on Indian and Egyptian orders following pound depreciation; (2) difficulties of financing large Soviet orders.

Berlin has noted that 2 failures within the last month have in part been due to the difficulty of financing Soviet business. The first was the failure of Friedenshuette Steel Works in Silesia.

Trade Imbroglios Worry French Business Men

Slackness continues. . . . Unemployment increased another 12%. . . . International trade imbroglios more serious. . . . Lyons textile industry lays off 20,000 workers. . . . France insistent on reparations.

PARIS (*Radio*)—France has had its Christmas peace seriously disrupted by anti-import measures which foreign countries have hastily legislated since France raised tariffs. Italy and Canada have completely renounced their existing trade treaties, to become effective after the prescribed 6 months. Switzerland has banned French cheeses. Belgium is threatening to abandon the coming conference, at which the 2 countries were to consider schemes for closer customs union, unless France in the meantime relaxes certain particularly onerous restrictions affecting Belgian imports.

Business is profoundly worried over the growth of these trade imbroglios abroad and over the steadily contracting activity at home. Despite the further tightening of the coal import contingent recently (from 80% to 72% of the last 3-year average), and reduced production domestically, stocks at the pit heads are still abnormally high.

The metallurgical industries have suffered a steep decline since Septem-

Wide World

TARIFF—*Ira M. Ornburn, head of the International Cigarmakers' Union of America, fills the last vacancy on the Tariff Commission*

ber. Certain branches of the French textile industry, notably silk and wool, have been closed completely until Jan. 5. Probably, if the present trend continues, they will remain closed until conditions improve. In Lyons alone, 20,000 workmen are locked out.

Registered unemployment is up another 12% this week. Unlicensed foreign labor is beginning systematically to be rounded up and repatriated. Socialist efforts to introduce unemployment insurance legislation were unsuccessful.

The keynote of Laval's week-end speech was a neat and definite redefining of French government policy: (1) a defensive trade policy; (2) no sacrifice of reparations to private debts, and no alteration on unconditionals except within the framework of the Young Plan; (3) no further disarmament, since it might compromise French security.

Britain Faces a New Year Full of Uncertainties

Business is slack, the future bound to innumerable uncertainties. . . . Textile stoppage possible. . . . Bankers, opposed to empire currency, renew interest in stabilization of sterling.

LONDON (*Cable*)—Not even last minute shoppers in London are running up the total of Christmas sales this year. The prospect of paying abnormally heavy taxes in January has had a bad effect on trade in general.

Bankers gauge the contraction in trade by note circulation. Last week note circulation expanded only £4.7 millions. In the same week a year ago it expanded £7.7 millions. Since Nov. 25, when Christmas buying usually gets under way, note circulation has increased only £9.1 millions, while in the same period a year ago the increase was £21 millions.

Reactions to Congress

Several events during the week have brought reactions affecting business. The attitude of Washington toward the prolongation of the moratorium has affected Britain adversely, forces more than the usual attention on the coming conferences in January where the whole problem of the Young Plan will be thrashed out. Britain is of the opinion that at this conference of all the debtors it will be necessary that there be some unity of action in order to force the hand of the United States. This accounts for the reports of Anglo-French negotiations despite the hostility recently engendered by the tariff war.

Labor and shipping are both watching negotiations between the Cunard company and financial interests. The government has definitely declared it can offer no direct financial aid to allow the Cunard officials to go on with the construction of the super-liner, now still a skeleton on the banks of the Clyde. It is possible, however, that investors may cooperate to finance the completion of the job in the hope that it will bring back to the British the Blue Ribbon of the Atlantic and some of the profits that invariably accrue to the line scheduling the fastest boat.

Textile Quandary

Among the many uncertainties which cloud the horizon of the new year is the pending dispute in the cotton textile industry. Lancashire workers declare they will not consider the plan to revise wages and lengthen hours. Owners, returned to their old unfavorable competitive position by the fall of the yen and the renewed Japanese competition that is bound to result, are meeting again Dec. 29 to outline a final plan. The country is not sanguine over the prospect. Britain has come to realize that her textile industry cannot compete in world markets unless it is rationalized. The present emergency, which has wakened many British to the troubles of the manufacturer, may force labor to accept modern schemes in spite of the resulting unemployment.

The British are beginning to show an interest in plans for an empire currency, heretofore usually considered only by the academically inclined. Industrialists, faced with the instability of sterling and with the seemingly small interest on the part of the government or bankers to stabilize, and confronted daily with the inconveniences of depreciated foreign currencies, are showing interest in the proposal. Current this week is a plan for a new empire unit of currency, to be called the rex. Then through an imperial central bank, also to be created, existing Dominion and British stocks of gold and silver would be converted into the new coin. This would necessitate no change in the present coinage of any division of the empire but would give a common unit of backing. Naturally there is a deal of opposition to the proposal. That the Bank of England is sufficiently concerned to have expressed a fresh desire to return to the gold standard at a high standard of parity is significant.

South America Flirts With New Trade Line-ups

Business is dull. . . . Argentina is concerned over British tariffs. . . . Uruguay is sponsoring new trade agreements with Brazil and Argentina.

NEITHER Christmas nor the new year is likely to bring any striking change in Latin American business.

Interest during the week was focussed on Brazil's new coffee destruction scheme (page 18) and on the conference in Montevideo between representatives from Brazil, Argentina, and Uruguay.

First consideration has been given to a proposal by Uruguay that the 3 countries nationalize the packing industry, as Uruguay has already started to do, in an effort to control their business in foreign markets, expand in Europe through a combined advertising campaign. The outlook for agreement, however, is not bright, for Brazil is opposed to state ownership of industrial establishments, and the meat packing industry is well established under foreign control in the Argentine.

Also under consideration at Montevideo is some arrangement for stimulating trade between Brazil and Uruguay. Hope that Brazil would take larger imports of Uruguayan wheat and flour are likely to be frustrated by further negotiations for a coffee-wheat

exchange between Brazil and the United States.

Argentina has other tariff worries. The threat of empire preference in the British empire has caused a deal of alarm in the Argentine. Long a good customer of Britain, the country is in a position to bargain. A delegation has been chosen to go to London for conferences on reciprocal trade.

Foreign engineers are interested in the announcement from Rio de Janeiro that the Central of Brazil Railroad will receive bids for electrification of the suburban network of that road around Rio. Bids will be accepted up to Apr. 30, 1932. The government proposes to guarantee the financing.

Find Threat in New Manchurian Situation

Japan prepares to finish the Manchurian job. . . . Exporters regain competitive position on depreciated yen but business generally still has not adjusted itself. . . . No new policies yet revealed by Nanking government.

THE situation in the Far East is tense. China's inability to cope with her notorious bandit situation is the cause of her undoing in Manchuria. To China, the Japanese are using the bandits as a pretext for an extension of power. Actually, there is no small amount of evidence against the Chinese within the confines of the Great Wall as well as north of it. Freed from bandits and policed by the Japanese it is entirely possible that famine-pressed Chinese will again migrate to Manchuria, though it is likely to be some time before the migration assumes the proportions it did in 1924 and 1925, when millions of farmers from the vast Yellow River plains "homesteaded" in Manchuria.

Japan is shaking down business on the new off-gold basis. Prices of stocks and commodities, except raw silk, are seeking new levels commensurate with yen depreciation.

Foreign trade during the second 10 days in December showed an unfavorable balance of $4½ millions. Both raw silk and cotton goods exports were small, while raw cotton imports are still heavy.

The Shanghai money market continues tight owing to the political situation and the banks' curtailment of loans and credit advances to safeguard their liquid reserves.

The outlook is uncertain but, generally, is not bright.

The Figures of the Week And What They Mean

Though watchful waiting has been characteristic of business for some time, it appears that St. Nicholas will pass this year without giving a spurt to activity. . . . Steel operations are destined to decline even further over the holidays. . . . Price concessions are becoming more widespread as orders lag. . . . Building awards continue the downward trend, but at a modified pace. . . . Carloadings also are shrinking as December wanes. . . . Currency circulation expanded less than the usual extent. . . . The insignificant change in November wholesale prices is among the few signs of cheer. . . . Copper producers are again setting their house in order.

A FURTHER small curtailment of steel operations is reported by Dow, Jones, which lowers our adjusted index a point to 38% of normal for the week of Dec. 21. The prospects for the next week point to rather extensive shutdowns which will leave operations near 20% of capacity. While this decline is less than in former years, the present level is so low that a proportionate decline is not to be expected. Only a few weeks ago it was generally believed that such a curtailment would not take place this year. It was thought that inventories of steel consumers were so low that no further reductions would occur. Moreover, considerable faith was placed in a gradually increasing volume of orders from the automotive industry. While a few concerns have ventured to start production on new models, extreme cautiousness has been the rule. Enough business has been coming through to hold Cleveland operations at 32% of capacity, according to *Iron Age*, and to improve operations in the Valleys. Pittsburgh has curtailed to 15% of capacity.

The belief that Ford will bring out a moderate priced 8-cylinder car probably acts as a further deterrent to increased production of other makers. Nevertheless, a gain in December car production is expected compared with November, when only 65,500 units were produced. Estimates run as high as 100,000.

The trade journals report that general consumption of steel has shown no important change. Such orders as have appeared are for January shipment. With these orders on hand plus an expected increase from the automobile centers, steel producers feel that January should mark an upturn in operations to 30%.

The continuance of price concessions characterizes the steel market in spite of the numerous complaints that mid-year prices were not adequate at the prevailing low operating rates. The break in automobile body sheets has spread to all of the more commonly used grades. Makers are soliciting business at prices $2 under the July 1 level when the stabilization program was enacted. Bar prices are said to be holding in most instances, but plate and shape prices are subject to concessions of $2. Larger structural tonnages reap even larger concessions. Price cuts are also reported on track materials.

The decline in December building awards was to be expected. According to F. W. Dodge, contracts awarded in

	Latest Week	*Preceding Week*	*Year Ago*	*Five-Year Average 1926-1930*
THE BUSINESS WEEK INDEX OF GENERAL ACTIVITY	*63.7	†64.6	77.5	......
Production				
Steel Ingot Operation (% of capacity)	24	25	34	64
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$6,181	$6,417	$9,851	$17,134
Bituminous Coal (daily average, 1,000 tons)	*1,212	†1,204	1,464	1,830
Electric Power (millions K.W.H.)	1,676	1,672	1,770	1,623
Trade				
Total Carloadings (daily average, 1,000 cars)	102	106	124	148
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	66	69	80	92
Check Payments (outside N. Y. City, millions)	$3,973	†$3,366	$5,437	$5,838
Money in Circulation (daily average, millions)	$5,599	$5,529	$4,870	$5,031
Prices (Average for the Week)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.53	$.53	$.71	$1.14
Cotton (middling, New York, lb.)	$.063	$.062	$.098	$.160
Iron and Steel (STEEL composite, ton)	$30.28	$30.36	$31.66	$35.40
Copper (electrolytic, f.o.b. refinery, lb.)	$.069	$.062	$.100	$.142
All Commodities (Fisher's Index, 1926 = 100)	67.0	67.1	79.4	92.5
Finance				
Total Federal Reserve Credit Outstanding (daily average, millions)	$1,949	$1,897	$1,325	$1,599
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$20,963	$20,664	$23,084	$21,818
Commercial Loans, Federal Reserve reporting member banks (millions)	$7,471	$7,477	$8,511	$8,909
Security Loans, Federal Reserve reporting member banks (millions)	$5,741	$5,760	$7,747	$7,028
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	.....	$662	$1,920	$3,342
Stock Prices (average 100 stocks, Herald-Tribune)	*$91.50	$91.81	$132.48	$148.01
Bond Prices (Dow, Jones, average 40 bonds)	$75.71	$76.35	$93.93	$95.84
Interest Rates—Call Loans (daily average, renewal)	2.5%	2.5%	2.3%	4.7%
Interest Rates—Prime Commercial Paper (4-6 months)	3¾-4%	3½-4%	2¼-3%	4.4%
Business Failures (Dun, number)	667	575	604	504

*Preliminary †Revised

the first 13 business days of this month totaled $71,177,200, a decline of 16.7% on a daily basis from November. Compared with the 29% decrease between October and November, the first half of December shows no renewal of the drastic downward trend. The adjusted indexes for the weeks of Dec. 4 and 11 stand at 40% of normal compared with 42% at the close of November.

Public Works Contracts

Public works contracts showed a gain of 5.5% above the November daily average, but were 28% below a year ago. In November, these contracts declined 35% from October. The effort to encourage every possible public work and utility construction as an aid to employment may meet further obstacles in the new year. Railroads are in no position to push improvements at the moment. Preliminary construction budgets of the electric power and light companies for 1932 indicate sharp decreases for property expenditures. Nonresidential awards slumped severely thus far this month, losing nearly 40% compared with November and 55% from the daily average of December, 1930. Residential awards totaled but $20,416,200, equal to a 20% decline from the preceding month and over 42% less than a year ago.

Coal output for the week of Dec. 12 showed but a fractional increase over the preceding week. The adjusted index is 54% of normal.

Electric power production has made insignificant increases since the Thanksgiving Day week, leaving our adjusted index at 82% of normal. Industrial activity in November as measured by the *Electrical World* on the basis of electric power consumption showed a slight increase compared with October. The most important gains were recorded in automobiles and accessories, rubber and food products. Textile and leather industries revealed some slackening.

The decline in carloadings was about as anticipated and in line with the usual seasonal decline. The 2 major classifications of miscellaneous and less-than-carlot freight made a slightly better than seasonal showing, so that the adjusted index rose to 63% of normal. The drastic decline in freight has had serious effects on railroad employment. The latest report for mid-October showed nearly 29,000 fewer employed than in September. The trend has undoubtedly continued to date, forming a stumbling block to wage negotiations.

Check Payments

The usual mid-monthly rise in check payments lifted the total for the week of Dec. 16 some 18% above the preceding week. The adjusted index remains at 70% of normal. New York City debits increased over 46% in the same period, but are nearly 30% below a year ago.

Currency circulation has headed upward again, but not in excess of seasonal expectations. The gain of $70 millions compares with $140 millions a year ago. The adjusted index declined one point to 32% above normal. Bank failures in November totaled 169 compared with 522 in October. Deposits involved aggregated $83,409,000 compared with $493,751,000 the preceding month. This improvement in the banking situation is reflected in the retarding of currency expansion during November.

A small decline of $6 millions in commercial loans for the week of Dec. 16 was not sufficient to alter the adjusted index which remains at 6% above normal for the fourth consecutive week. The decline is to be expected during December.

November wholesale commodity prices as measured by the U. S. Bureau of Labor Statistics on the basis of 550 commodities declined only fractionally from October. Food products showed the greatest decline. Decreases were reported in 119 instances, increases in 151, and no change in 280 commodities. In January, this bureau will publish a weekly wholesale price index covering 784 commodities. The weekly index of Fisher based on 120 items and the index of the National Fertilizer Association based on 476 commodities have shown a steady decline since November.

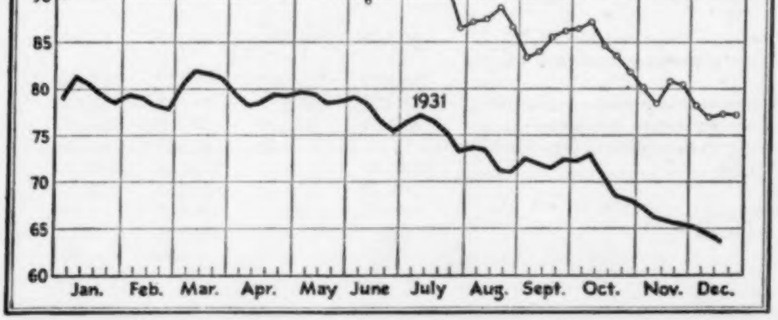
Commodities Gain

In the past few days, wheat, corn, hogs, and hides weakened. Cotton made a slight gain. Coffee and rubber prices scored gains. Belief that the Dutch and English would come to an agreement on rubber restriction buoyed the market. Sugar prices are irregular. Cocoa declined steadily and trading turned dull as the holidays approach.

Copper prices have been stimulated by the recent agreement of producers. Lead and zinc are steady. Tin prices are above recent lows. Silver declined. Trading is slow, but this is to be expected at this season.

The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



Trends of the Markets In Money, Stocks, Bonds

Fears of early American abandonment of the gold standard are groundless. . . . No one can at present foresee the consequences if abondonment should occur in the more distant future. . . . Bonds rally with some vigor as year-end adjustments are completed. . . . A banking pool is reported to be helping security prices. . . . Stocks rally, stop their long decline, hesitate.

Gold Standard Is In No Danger Yet

BUSINESS and finance listened with interest this week to discussions of the possibility of the United States' leaving the gold standard. These discussions have been based chiefly on reports and predictions from foreign sources.

However, no immediate likelihood of such a step exists. At present the United States has far more gold than it needs for the present money and credit system. The Federal Reserve Banks have not far from $1 billion excess reserves. And there are large amounts of gold, in circulation as gold certificates, which could be replaced by other money not requiring 100% gold backing, so as to increase those reserves.

No question of our ability to pay gold could arise until huge amounts had been withdrawn by foreigners and by hoarders. We are now gaining gold from abroad, and with the seasonal return flow after the holidays, currency in circulation is likely to go downward instead of upward.

The precursor of gold suspension would be some disturbance grave enough to cause continued withdrawals, or the imminence of some excessively unwise financial legislation. Either danger certainly would be evident for some time in advance. Even then, policy would determine whether there would simply be an embargo on exports, or complete suspension of gold payments, internally as well as externally, or some other step.

The consequences of such a move, should it develop, are totally unpredictable. They probably would be inflationary to some extent, but it is also possible that the step might mean further deflation. The details of the move and the monetary policy regarding attempts to manage money and credit under such conditions would have to be known before this could be cleared up.

Call Money Up

Money markets of the week developed some tightening, call money rising to 3% for the first time since January, and federal funds jumping practically to the discount rate. A deceptive rise in member bank credit occurred as a result of government financing: it may be temporary or it may be inflation.

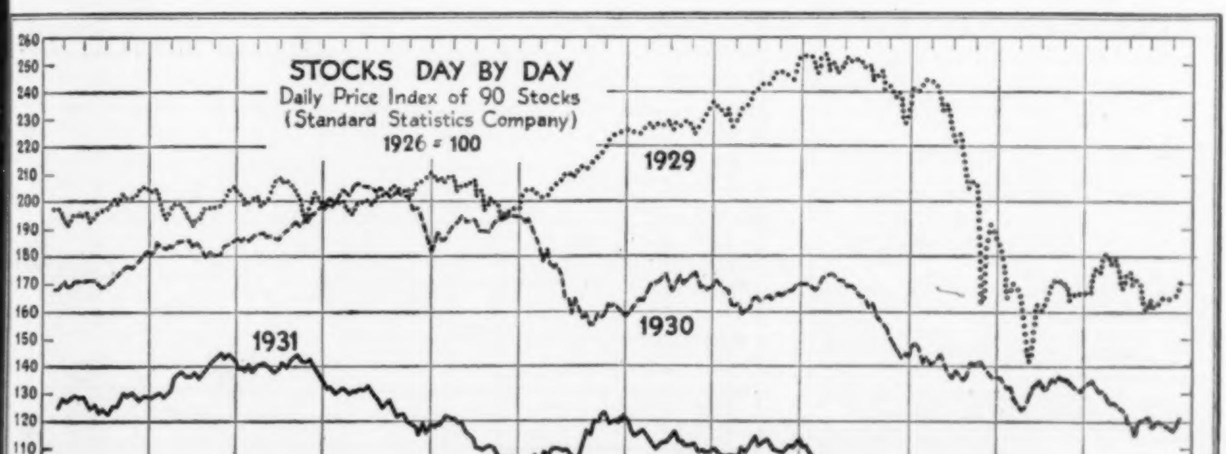
Foreign exchanges again fluctuated without general direction. Most notable was a further decline in Oriental monies in terms of the dollar. Sterling and most of the currencies associated with it fell for the week, while most of the French group rose. South American trends were mixed.

Stock Prices Turn Up On Encouraging News

CESSATION of the year's third major decline in stock prices provided some cheer for the Christmas week in the stock market. Primarily it seemed to originate from reassurances given Congress by Thomas W. Lamont that banks are not so seriously involved in foreign loans and investments as had been generally believed. Strength in bank stocks from this announcement gave added encouragement.

Culmination of the year-end adjustments—including selling to establish tax losses—was an equally important factor. Only once in 30 years, it is said, have prices failed to advance in late December after this movement has been completed.

Some other mildly encouraging developments helped the move along. Among them were further progress toward the solution of railroad difficulties through wage cuts and the loan pool, prospects for curtailment of cop-



per output, speeding up of moves toward establishment of the Reconstruction Finance Corp., and a strengthening in bonds. Passage of the moratorium measure was not much of a factor, since it was entirely expected.

Rallying tendencies appeared in stocks with prices about 75% below the 1929 highs and a long list 95% or more below. More than half of the shares on the exchange were below $10 a share, and about 30% of them below $5 a share.

The turn may or may not mark the passage of the depression's low point. Certainly it does not mark solution of the nation's financial and other difficulties, for many remain. The very hesitation which has appeared in the market shows that. But the rally at least provides a relief from the breath-taking decline of recent weeks.

Bonds Now Look More Like Bargains

THE abrupt turn-about in bond prices gave the business world more Christmas cheer than any other development of the week.

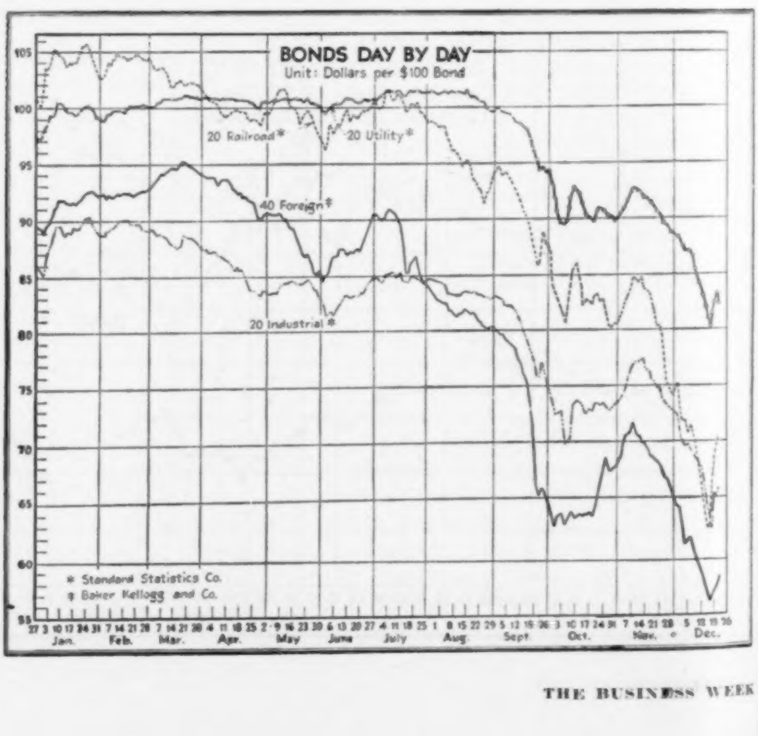
Banker operation of a huge pool to support fixed interest-bearing obligations has received most credit for the change. As in stocks, however, the end of the window-dressing period, especially for the banks, the encouragement offered by Mr. Lamont's testimony, and moves toward the Reconstruction Finance Corp. were equally, if not more, important influences. The change in trend is hailed as the end of a flight of capital from bonds.

Strength in the rail obligations was especially noticeable, as the chart shows. This resulted from cheering talk by Daniel Willard, president of the B. & O., aggressive moves toward wage reductions, and establishment of the railroad loan pool.

Still on Gold

Spiking of reports that the United States is in danger of going off the gold standard in the near future was important to any holders who had given credence to such reports. Nearly all bonds are payable in gold. With this doubt removed, for the time at least, and with more aggressive efforts by both Washington and others to strengthen industry's position, many bonds have become quite attractive. Some are selling virtually at receivership prices, yet are more than earning their interest. The lack of demand as a factor in lower prices was emphasized again by the testimony of the head of the Metropolitan Life Insurance Co. that 32% of all investment funds of the insurance companies this year had gone to policy loans.

Bond prices must, of course, recover far more than the amount regained this week before the strain is removed from financial institutions, with their heavy investments in bonds. Cessation of the decline is encouraging, however, in that they are not being further weakened.



James W. Dublin, Rtd.

Our Little Home

In some respects New Year is better than Christmas. At Christmas we forgive the mistakes of others. At the New Year we forgive our own—and write ourselves a fresh permit card to start all over again.

In order that we may obtain the necessary perspective for the job ahead, the mike is herewith turned over to Sir James Jeans, noted explorer of those wide astronomical spaces out where men are mental. He will read from his book, "The Mysterious Universe" (Macmillan) . . . Gentlemen, Sir James.

Sir James: "A few stars are known which are hardly bigger than the earth, but the majority are so large that hundreds of thousands of earths could be packed inside each and have room to spare; here and there we come upon a giant star large enough to contain millions and millions of earths. And the total number of stars in the universe is probably something like the total number of grains of sand on all the seashores of the world. Such is the littleness of our home in space when measured up against the total substance of the universe.

"Standing on our microscopic fragment of a grain of sand, we attempt to discover the nature and the purpose of the universe which surrounds our home in space and time. Our first impression is something akin to terror. We find the universe terrifying because of its vast meaningless distances, terrifying because of its inconceivably long vistas of time which dwarf human history to the twinkling of an eye, terrifying because of our extreme loneliness, and because of the material insignificance of our home in space—a millionth part of a grain of sand out of all the seasand in the world. But above all else, we find the universe terrifying because it appears to be indifferent to life like our own; emotion, ambition, achievement, art and religion all seem equally foreign to its plan."

While we are adjusting ourselves to some of Sir James' super-truths, Miss Myrna Crunch will sing "Life Is Just A Bowl of Cherries" . . .

I am sure we all enjoyed Miss Crunch's rendition. Even a bad lyric has its uses; it brings us back to earth . . .

Returning to Sir James, I cannot say that his tidings from Out There terrified me. On the contrary, it gave me the feeling of here we are as snug as a bug in a rug. This little home is all ours—exclusively. Nobody, apparently, is around to take it away from us.

Really a tidy estate. A farmstead. Contains minerals. Grows vegetable products. Sustains animal life. Workshops dotted here and there and stores which sell their goods. Clustering houses where the young are reared. A net of wagon tracks for travel. And boats to carry folks safely across the waters.

Viewed from far off these glimpses resemble a series of pretty postcards pasted in Aunt Mabel's album the time she took the trip around the world. They make you long to go to all these varied places. . . But as we draw closer to the actual scenes we hear a hell of a racket. By reading the papers assiduously we discover what it's about. It's the people, the different heirs to the estate. They don't like their little home.

Why not? There's a big mortgage on it and there's an argument to see who'll pay it off.

What became of all the money? The heirs don't know—they batted it around until they lost it. Besides, there was a war. What for? To make the world safe for democracy. What's democracy? They are the men nobody knows.

If the war is over why keep armies? For the next war. Why have a next war? It's an old army custom.

Getting back to the mortgage, why can't business make some more money and pay it off? Business goes by jerks. Just now it has a stutter.

Can't governments do something about it? Governments work by jerks, too. All right, then why don't we tear all the money up and start over again? That's what we are doing.

Why doesn't the whole world and all its heirs get together and cooperate and enjoy our little home? Only idealists ask this foolish question and when they do they are referred to the nearest policeman . . .

We lift the curtain on another year of human endeavor. Our hearts lift with it. I don't care much what great events may parade across the stage. Our need is more urgent than great events. What our little home requires is Great Teachers—men the people will follow at least as much as they do the Messrs. Culbertson and Lenz.

J.W.D.

THE BUSINESS WEEK

The Journal of Business News and Interpretation

December 30, 1931

Retreat From Deflation

THE Christmas festival has its spiritual source and significance in the simple physical fact of the winter solstice. Men of all eras, races, religions have celebrated in this season the turn of this planet in its orbit which signals the end of its swing away from the sun and begins to draw us nearer day by day to the source of life; until, with the spring equinox, at our Easter time, the solar light and warmth bring resurrection of the earth's energies and men's hopes.

Surprising as it may seem, this year-end is no exception to this invariable phenomenon of nature, nor is next spring likely to upset the well established precedent. At least that much may be forecast with considerable confidence, and even this hard-boiled business publication may be excused for reflecting on the fact in this sentimental fashion; for it is customary to make some comment on Christmas and it is hard this year to find much to say. But these comforting reflections are emphasized on this occasion by a coincidence which justifies this juxtaposition of astronomical, economic, and spiritual facts.

That mysterious manifestation of human confidence and cooperation called credit is the Old Sol of our economic solar system. It is the counterpart, among our economic institutions, of the source of energy which animates all terrestrial activity and supplies the basis of all our industrial and agricultural accomplishment.

Without some stability in solar radiation, for which providentially no political party and no interstellar Reserve System can be held responsible, we would not be writing nor you reading about business conditions. So, conversely, if the sources of credit energy upon which our economic life depends had supplied it as continuously and successfully as the solar energy shed upon this earth has been used by men to produce goods and services, we should not now be abashed by the low level of the mercury in the business barometer on the cover of this magazine.

All of the sun spots we have ever read about have disturbed us less than the credit eclipse that has darkened the world during the past year. The ice age that once existed when the earth's axis twisted us out of our place in the sunshine congealed less of its surface than has been frozen in security portfolios under the polar cap of credit contraction since 1929.

But behold, now, as we swing into the winter solstice in the astronomical sense, something has happened in the economic sense; some men have seen the light; slowly the days are lengthening, the sun returning. This is so far principally a spiritual change. The determined voices that have been demanding further deflation as the source of salvation have become feeble as the frigid darkness has descended upon them also.

The bitter-enders of deflation have begun to admit that there can be too much of a bad thing. One by one we note among our orthodox deflationist contemporaries an inclination to invent quaint casuistries and cute intellectual contortions to explain why further credit contraction might not be desirable, how liquidation may possibly be pushed too far, and wherein the Administration's efforts to support expansion may be excusable, helpful, or simply swell. Even some sober scholars of the castor-oil school of economics who a few months since could work up a fine lather of righteous fury over the word "inflation," are now rushing into the comforting arms of the Reconstruction Finance Corporation with unrestrained enthusiasm, asking only how this intriguing process may be accomplished promptly and completely.

The retreat from deflation is under way; the solstice of financial sanity has set in, so we may well hope for some sunshine in the spring and a happier New Year.

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